

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 affiliates that participate in other ISOs, and the approved products list, if applicable.
- 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. 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.

3. Oversight and Governance

- Describe the ultimate risk management oversight committee/body or officers and how often they meet to discuss risk management at the company including oversight's independence from trading.
- Please state who authorizes risk policy? Please state who provides the risk policy review and approval
- Describe the process for editing, updating, changing, reviewing and approving risk policy.
- Provide risk policy review frequency and last review date.
- Describe process for trader acknowledgement of risk policy.
- Describe the process for escalating risk management issues to the oversight committee/body/officers.

4. Separation of Risk and Trade Execution Functions

- Risk management functions such as monitoring of and valuation of exposure, enforcement of company risk limits and reporting to management should be performed by personnel who are not also

responsible for determining and executing transactions in the market place.

- Provide an internal organization functions chart that shows how the risk management and trade execution functions and leadership are separated
- Describe processes performed by risk management
- Describe processes performed by trade executors

5. Compliance

- Describe the process for detecting, reporting and remedying a breach of risk policy limits and violation of risk policy.
 - Who is responsible for monitoring and reporting?
 - When and how is the matter escalated to the oversight body and what actions are taken to correct?
- Describe any disciplinary process and actions that would be taken when market rules or risk policy is violated.
- Describe compliance practices and requirements for all employees relative to familiarity with PJM Governing documents and manuals, FERC market manipulation rules, NERC and other regulations, including specific routine and periodic training(s) given to traders, transaction executors and other representatives.
- Provide an express commitment to compliance with market rules, regulation and cooperation with regulators including reporting to PJM any violation of the risk policy.
- Describe the company's record retention practice.
- Identify and provide the contact information for the person primarily responsible for risk management compliance.

6. 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

- Describe risk mitigation practices and risk management layers for each PJM market that the member participates (Physical energy, Virtual market, Capacity market) including mitigation of penalties.
- Describe analysis that is performed including systems and tools used for pre-execution assessment and approval before positions are established and transacted.
- Describe position limits including volumetric, tenor, term, concentration, hedging or other controls in place to mitigate potential losses.
- Describe dollar value limits; for example, working capital, maximum loss limit, exposure limits in place to mitigate potential losses.
- Describe methodologies, analysis, metrics and limits used for risk exposure assessment, valuation and

monitoring, such as VaR, Conditional VaR (cVaR), stress test, scenario analysis, max drawdown, etc.

- Describe and list the risk management reports that are reviewed routinely, 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?
- Describe Mark-to-market valuation practices and frequency.
- Describe trade execution processes and systems including trade confirmation.

c. Liquidity Risk

- Provide minimum amount or range of funds that is required to be maintained in reserves OR is readily accessible to mitigate unexpected losses from tail events, penalties and price volatility.
- Describe source of liquidity; for example, percentage of working capital not placed at risk, cash, LC, surety bond (include term of any such facility) or parental guaranty available to protect Market Participant against losses that exceed collateral estimates.

d. Credit Risk

- Identify whether the company transacts bilaterally with other counterparties and describe how the credit risk exposure is managed.
- Describe the vetting process for a new counterparty including any resulting collateral protections required for poor credit and credit extended to counterparties with high credit ratings.
- Describe the quality of credit counterparties currently held and the desired balance of quality (e.g., by credit rating).

7. Generation Assets

- Nameplate capacity and fuel type of each generator, expected in-service date, Gas pipeline location (if applicable)
- Location (PJM zone).
- Describe whether the asset is eligible and intends to participate in PJM RPM auctions, when the first participation is expected, Capacity market risk mitigation processes such as bilateral trading, Incremental auction, deficiency monitoring, PAI event monitoring and liquidity provisions.
- Describe forward hedging strategy including position and tenor limits, GMar limits etc as applicable.
- Has the company signed PPAs? Describe how they are generally structured (e.g., unit contingent, fixed volume). Describe how the volume risk is managed, if fixed volume.
- If natural gas units, describe Market Participant's fuel transportation risk management. Does the company have primary firm transportation contract to the gen facility?
- If natural gas units, describe commodity price and volumetric risk exposure management process. Is there a long term fixed price commodity contract in place? How is it priced? (e.g., as a function of PJM DA Index). Is the commodity contract for delivered gas? If not how is basis risk managed? Describe methodologies and related metrics and limits for forward basis risk valuation.
- Describe other market activity such as Renewable Energy Credits.

8. 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).
- Describe provisions for typical risks inherent in load serving market such as attrition, migration risk, shaping risk and basis risk.
- Describe pass-through and non-pass-through costs and related fixed price risk management measures, valuation and related limits. Specifically, describe how the company manages capacity, ancillary and transmission charges.

9. Due Diligence and KYC

- Describe your KYC (Know Your Customer/Counterparties)) processes, **OR** 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.

10. 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, blocked persons, PEP (politically exposed persons) issues, Corporate Transparency Act and other applicable Anti-Money-Laundering and countering the financing of terrorism laws.
- Provide any contractual representations that you require of each of your customers/counterparties on the subjects of compliance with anti-money laundering laws, sanctions, PEP (politically exposed persons) issues and the Corporate Transparency Act and other applicable Anti-Money-Laundering and countering the financing of terrorism laws.
- Has the company designated an AML Compliance Person? Please provide their contact information.
- Describe company's method of verifying identity of customers/counterparties.
- Describe procedures for customers/counterparties/investors who fail/refuse to provide identity verification information.
- Describe procedures for when customer/counterparties/investors identification information cannot be verified.
- Describe procedures to check customer/counterparties/investors 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 periodic AML training provided to representatives of the company.
- 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.

11. 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:
- Describe any processes designed to comply with applicable Anti-Bribery and Anti-Corruption (ABC/ABAC) laws and regulations, foreign and domestic
- Describe any Anti-bribery/Corruption laws the company adheres to 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 or controls related to direct or indirect forms of political contribution, whether cash or otherwise, on behalf of the entity.
- Include any company standards/controls related to any donations to a non-U.S. charity or entity, whether by cash or otherwise, by or on behalf of the entity.

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12. Provide Compliance Attestation

- Provide 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)