

CITY OF ROCHELLE

**ADMINISTRATIVE POLICY FOR
MITIGATING ENERGY TRANSACTION RISKS**

Version 2.0 Approved by City of Rochelle City Council _____, 2024

OVERVIEW

City of Rochelle, through Rochelle Municipal Utilities (RMU), owns and operates an electric distribution system in accordance with Illinois law for the purpose of providing and delivering low cost, reliable power to its residents. Rates are set by the City Council and are not subject to oversight by the Illinois Commerce Commission. The City is dedicated to keep the cost of electricity stable and competitive through a variety of means, including ownership of generation, participation in power projects through its membership in the Northern Illinois Municipal Power Agency (NIMPA) and entry into power and energy purchase transactions with wholesale providers. All such transactions require approval of the City Council.

This administrative policy for mitigating energy transaction risks (Policy) details the essential components of a prudent risk management process for its energy procurement activities. The Policy is intended to provide an overarching framework and control structure specifically for the City's participation in deregulated wholesale energy markets. The Policy recognizes that there are certain risks inherent in such transactions. The City is responsible for minimizing those risks in order to meet its mandate of maintaining low and stable electric rates for its retail customers, as well as to maintain its strong financial standing more generally.

OBJECTIVE

The primary objective of the City's risk management activities is to balance the goals of maintaining long term, low cost and environmentally responsible power supply while stabilizing rates and maintaining the City's strong financial health. The City plans to continue developing a long-term power supply portfolio based on ownership of physical assets and entry into both long term and short term purchased power contracts. The goal of this balanced approach is to maintain long term rate stability.

RISK EXPOSURES

The City of Rochelle is exposed to many forms of risk that can have a detrimental impact on rates and financial conditions. The following list highlights a few of these risks:

- Commodity Prices (including fuel, congestion and losses)
- Volumetric (load forecast)
- Unit outages
- Operations
- Credit
- Contract Prices
- Regulatory/Environmental
- Market Liquidity
- Financial Liquidity

By formulating and implementing general policies and guidelines in the areas of hedging, trading authority, credit support and contracting, the City can mitigate these risks to tolerable levels.

RISK MANAGEMENT POLICIES

A. Scope

The following Risk Management structures and policies apply to all aspects of the City of Rochelle's power supply planning, procurement, market activities, rates/billing and finance/accounting.

- These policies prescribe the management, organization, authority, processes, tools and systems to monitor, measure and mitigate the energy market risks to which the City of Rochelle is exposed.
- These policies do not address general business risks such as fire, accidents, casualty, worker health and safety or general liability; such risks are addressed through the City's insurance policies.
- These policies are intended to supplement, not to replace or modify, the City's purchasing procedures and with a view toward developing policies specific to the City's energy purchasing activities.

B. Risk Management Structure

City of Rochelle personnel perform many different tasks in the areas of planning, engineering, forecasting, rates, finance, accounting and customer service. The City of Rochelle also works with outside consultants to assist in its power supply management activities. The following guidelines are intended for use with this Policy.

1. Designated Risk Officer

The Superintendent of Electric Operations shall function as the "Designated Risk Officer," with responsibility for overseeing compliance with this Policy.

2. Training

The Superintendent of Electric Operations shall ensure that all outside consultants with whom the City of Rochelle works shall have the necessary training and qualifications to perform applicable energy market functions on behalf of the City of Rochelle.

3. Diversification of Energy Resources

City of Rochelle maintains stable rates through diversification and ownership of energy sources and fuels. It owns and operates three generating stations, totaling 22 MW of generating capacity. All three generating stations are supplied by natural gas and operated behind the meter. Rochelle also owns a 312 kW Solar Photovoltaic Plant operated behind the meter. The plant covers 220 kW of the Water Treatment Plant's summer peak of 420 kW. Finally, City of Rochelle is a partner

in a 4.8 MW Bio-Gas Landfill-Gas-To-Energy Facility located in Rochelle, which is also operated behind the meter.

The City of Rochelle supplies base load power needs primarily through a contract with NIMPA for an entitlement share of 30 MW in the Prairie State Energy Campus (Prairie State Project), which is a mine-mouth coal generating facility located in southern Illinois. NIMPA maintains an ISO Risk Mitigation Policy that specifies risk management strategies with respect to counterparty risk, liquidity risk, hedging and energy market risk, in both PJM and MISO.

The City of Rochelle relies on its participation in the PJM energy markets, as well as on bilateral transactions with terms that can range between 1 and 15 years with well-known industry partners, to meet its short-term energy needs. Generally, the terms of these transactions are between five and ten years. Currently, the City has two long-term energy transactions in place. The majority of its needs are being met through a bilateral deal that will end in 2029. The other transaction is in place through June of 2025.

The majority of the City's capacity needs are met through its power sales agreement with NIMPA for its 30 MW entitlement share in the Prairie State Project. The balance of its needs are procured through participation in the PJM RPM capacity market.

4. Trade Capture, Confirmation and Settlement

In general, purchases of market power and energy are limited to what is required to serve City of Rochelle retail load. The City of Rochelle does not engage in speculative purchasing, as further specified in section C.1, below. The City of Rochelle, through its power supply consultants, will procure required electric energy and gas through a competitive process in order to seek the lowest price. That is, a request for proposals will be sent to potential wholesale providers utilizing standard procedures, such as through the North American Energy Marketing Association (NAEMA) website, and proposals will be evaluated to determine the lowest cost bidder. If the City has an existing Master Agreement with the provider, the transaction will be confirmed using standard industry procedures. If the City does not have a Master Agreement with the provider, the City will negotiate and finalize such an agreement and undertake necessary credit evaluations before confirming the transaction.

Hedge quantities are determined using forecasted load models. Typical terms of power purchase transactions range between five and ten years, but can span up to fifteen years. All of the City's counterparties have executed industry standard form agreements (e.g. NAEMA or Edison Electric Institute (EEI) master agreements) (see additional information, below). Delivery is typically taken by the City of Rochelle at the Northern Illinois Hub (Ni.Hub).

The Superintendent of Electric Operations shall (i) make sure that all energy trades are approved and/or executed by authorized City of Rochelle officials and such trades are within purchase guidelines with respect to both price and quantity established by the City Council for specific power purchase transactions; (ii) review and verify, or cause to be reviewed and verified by qualified outside consultants, all entered trade confirmations prior to signing; (iii) cause

appropriate City of Rochelle accounting personnel to receive invoices and process for appropriate approvals and payments, as well as to check monthly totals and verify invoices with counterparties.

5. FTR Auction Transactions

Financial Trading Rights (FTRs) will generally be procured and sold via the PJM auctions. The Superintendent of Electric Operations shall ensure that the City of Rochelle utilizes qualified outside consultants to procure and sell FTRs in monthly FTR auctions in accordance with a recommended FTR plan for the applicable time period.

Generally, the City of Rochelle participates only in annual and monthly FTR auctions administered by PJM. The typical congestion path is sourced at the Ni.Hub and sinked at the City of Rochelle's CP node. Quantities are directly related to the nature of the congestion exposure against which the FTR is sought to hedge. For example if a forward purchase of 5 MWs is to be delivered at Ni.Hub, the hedge quantity will be 5 MWs.

C. Commodity Hedging

The City of Rochelle is exposed to many financial risks in its operations, including those due to fluctuations in the cost of market power and natural gas. The risks can manifest themselves as cost fluctuations due to both the actual price of market commodities and cost fluctuations due to the volumetric risks of the quantities exposed to those prices. The most effective way to stabilize such fluctuations is through a defined and practiced commodity hedging program. The hedging program will limit exposure to these price fluctuations by fixing the prices at fixed and known amounts. The purpose of this policy is to define general purchasing guidelines and processes for determining purchase quantities. It is important to note, however, that natural gas is the only commodity utilized by City of Rochelle.

1. Speculation

Speculative buying and selling of any commodity is strictly prohibited. Speculation is defined as the forward buying of power or gas not required to serve electric load, or the forward selling of energy not covered by a City of Rochelle owned or contracted resource, or the taking of an FTR position not associated, or correlated with actual congestion exposure. In no event shall transactions be entered into in order to speculate on future market conditions or should individual market views on the part of City of Rochelle personnel be used to circumvent these guidelines. Instructions from PJM or other applicable regional transmission organization to run City of Rochelle owned generation for economic or reliability reasons does not constitute speculation.

There are only a limited number of reasons why the City would consider entering into additional energy transactions. One would be expiration of existing energy transactions. Depending on the term of the transaction, the City generally begins evaluating current demand within 1-4 years prior to expiration of the current transaction based on anticipated typical load growth and will begin to engage the market to explore replacement transactions by seeking indicative pricing.

Another trigger would be the addition of a significant new electric customer or significant expansion of an existing customer. At that time, the new load estimate would be evaluated and an additional long-term transaction would be considered based on the certainty of that new load materializing in the city's service territory. Typically, a significant load addition is considered to be in excess of 5 MWs or 2-3% of the City's current system peak load.

To help monitor these activities, the City receives monthly reporting from its power supply consultant (see below, section F). These reports are reviewed by the Electric Superintendent, which enables the City to make sure the volume of market activity is not in excess of load requirements or that the City's consultants are not themselves engaged in speculation in violation of City policy.

2. Hedge Activities

The City of Rochelle's hedging activities will be based on limiting the effects of market price movements on the City's market exposure. This will be accomplished by the forward purchasing or selling of commodity products.

The following transactions are permitted under this hedging policy:

- Physical or Financial Forwards
- Fixed Price Physical or Financial Call/Put Options (Power or Gas)
- Heat Rate Based Physical or Financial Call/Put Options
- Fixed Price Unit Power Agreements
- Long Term Purchase/Sale Agreements
- Financial Transmission Rights (FTRs)
- Bilateral Capacity Transactions
- Other hedge transactions recommended by outside consultants and approved by the Electric Superintendent

Currently the City of Rochelle engages in a limited variety of the transactions permitted above (purchase/sale agreements, FTRs, bilateral energy and capacity transactions). Nothing in this policy affects or limits the City of Rochelle's ability to procure additional physical assets, enter into long term purchased power agreements, or engage in other kinds of transactions, subject to City Council approval.

The City will hedge a portion of its forecasted requirements not covered by fixed sources or sales quantities over customer load requirements. This portion may include, but is not limited to:

- Market purchases above resources
- Market sales above member load requirements
- Market energy required during planned or forced outages of non firm resources
- Contract energy that is priced on a market index
- Contract energy subject to unknown annual adjustments
- Natural gas used to serve native load

- Marginal congestion and losses incurred via the prevailing Locational Marginal Price (LMP)

In order to determine the hedge quantities, models will be developed to produce simulations of City of Rochelle operations, taking into account market price, volatility, commodity correlation, unit maintenance outages, unit forced outages, PJM LMPs, including congestion and losses, and load forecast error and variability. Hedge quantities will be calculated based on expected model results utilizing qualified staff or qualified outside consultants. Scenarios will be run with the hedges in place to quantify risk reduction and reported to the Superintendent of Electric Operations.

When procuring hedges, the amounts required may be rounded to levels normally traded and available from the City's counterparties.

In addition, calculated expected native load natural gas usage will be reported to the Superintendent of Electric Operations for natural gas hedging consideration.

FTRs will be procured as needed in the available RTO auctions. FTR positions taken should correspond to an actual path on which the City has congestion exposure. Positions may be taken on paths in which the City does not have a corresponding exposure only if the historic correlation between the selected path and the actual path it is intended to hedge exceeds .90.

The Superintendent of Electric Operations, in discussion with qualified outside consultants, will evaluate and determine procedures for the procurement of hedges for power and natural gas. FTRs will be procured per the auction schedules published by the applicable RTOs.

The most recent City of Rochelle load forecast shall be used as a basis for each run of the risk assessment model. On a regular basis, a historic analysis of the current load forecast shall be prepared for review by the Superintendent of Electric Operations. Should unexplained deviations occur, the Superintendent of Electric Operations shall ensure that proper adjustments to the forecast are made.

To the extent that the City's hedging strategy results in larger than anticipated losses that exceed the revenues they produce, the City has the ability, if needed, to make appropriate customer rate adjustments to ensure cost recovery by action of the City Council.

3. Liquidity

The City of Rochelle Electric Unrestricted Cash Reserve Policy, passed in 2016, directs that the Electric Fund shall maintain between a minimum of 90 days and a maximum of 120 days of cash reserves sufficient to pay budgeted operating and maintenance expenses, including power supply costs, based on the most recent audited financial statements. The reserve may be used by RMU to cover temporary cash flow deficiencies caused by timing differences between revenues and incurring expense obligations and unexpected increases in operating expenses. Reserve levels are monitored during the fiscal year and reported in monthly and quarterly financial reports. The

reserve target minimum and maximum levels are subject to review and adjustment by the City Council based on the development of new electric industry risk factors.

D. Transaction Authority

The City Council shall establish contract volumes and dollar amounts for bilateral contracts at the request of the Superintendent of Electric Operations, who will then work with qualified outside consultants to procure appropriate energy transactions for ultimate approval by the City Council. Bilateral power, natural gas and FTR transactions may only be entered into with counterparties in compliance with the City of Rochelle credit review policy (see below, section E) and in accordance with applicable RTO rules. All approvals from the City Council in connection with transaction limits for bilateral transactions must be provided or confirmed in written format. FTRs will generally be procured and sold via the PJM auctions. The Superintendent of Electric Operations will work with qualified outside consultants to procure and sell FTRs in monthly, quarterly or annual FTR auctions in accordance with plans approved by the Superintendent of Electric Operations.

E. Counterparty Credit Review and Assessment

The City of Rochelle considers the creditworthiness of all parties with which it does business. This policy has been specifically developed to document the credit policies and procedures under which the City of Rochelle undertakes power purchase and sales transactions. The City of Rochelle only engages in transactions with counterparties with whom it has entered into master agreements utilizing industry standard contract forms such as those developed by NAEMA or EEI. These forms require counterparties to make representations and warranties that ensure they are (i) duly organized, validly existing and in good legal standing; (ii) not bankrupt or subject to any legal proceedings that could materially affect their ability to perform their obligations; and (iii) duly authorized to engage in the transactions.

The City of Rochelle does not engage in transactions with counterparties with less than an investment quality credit rating. If Rochelle Municipal Utilities would like to do business with a counterparty, it will cause to be developed and executed an EEI, International Swaps and Derivatives Association (ISDA) or other credit agreement ("Credit Agreement") with that counterparty prior to any transaction taking place. The Credit Agreement will address the credit parameters under which the counterparties will conduct business. A counterparty's credit is reviewed during the negotiation of the Credit Agreement. Once these EEI or ISDA agreements are in place, Rochelle Municipal Utilities will initiate individual transactions using a confirmation, which contains the details of the individual transaction, the date, the amount, the price, etc.

Rochelle Municipal Utilities monitors current industry events for any information about companies that would influence their financial stability. Rochelle Municipal Utilities from time to time may utilize credit reporting services to assist in monitoring the creditworthiness of counterparties. If it is found that there has been a material deterioration in a counterparty's credit, such as a decrease of a Moody's or Standard and Poor's rating, the Superintendent will discuss the situation with the counterparty. The Superintendent of Electric Operations will notify the accounting department of any known change in the financial status of an existing supplier.

The City will seek to avoid entering into forward transactions that create excessive exposure to any single counterparty. City Council approval is required prior to entering into any transaction that would result in an aggregate forward transaction value in excess of \$1,000,000 with any single counterparty.

The Superintendent of Electric Operations and the City Manager are authorized to negotiate ISDA's, EEIs and purchased power agreements with a counterparty. Currently, Rochelle has executed three such agreements with large power supply companies with proven track records in providing wholesale power to municipal utility customers, specifically Nextera Energy Power Marketing LLC, Exelon Generation Company LLC, American Electric Power Service Corporation. Executing a limited number of master agreements enables Rochelle to work only with trusted wholesale partners that are well known in the industry.

F. Reporting

The Superintendent of Electric Operations will provide reporting on risk policy compliance and general market information at the request of the City Council.

The City receives monthly reports from its outside power supply consultant. These reports use details about the long-term energy transactions as well as PJM reports to communicate the net market position (supply vs demand) of the city and a summary level of market exposure. Each city has this information available to them via PJM's MSRS tool and the physical transaction agreements executed. The reports provide the Superintendent with a basis for assessing unusual activity, both with respect to the City's load characteristics, as well as market activity. The summary tab of a recent report is included for illustration purposes.

G. Due Diligence, Know Your Customer and Anti-Money Laundering Policies

As a municipal electric utility organized and operated under Illinois law, Rochelle Municipal Utilities (RMU) has an obligation to serve all residents and businesses in the City of Rochelle and its wider service territory.

To obtain residential utility service, all customers must complete an application form at the RMU office provided by RMU. The application requires two forms of identification: one that is a government-issued picture identification, such as a driver's license and a second that is a form of signed identification, such as a social security card. In addition, the applicant must provide proof of ownership or a rental agreement. Applicants must also provide their social security number, date of birth, service address and employment information. Applicants must also sign an acknowledgment verifying that they completed the application accurately and authorizing Rochelle Municipal Utilities to make commercially reasonable inquiries with credit bureaus, employers and creditors.

To obtain commercial/industrial utility service, all customers must complete an application form at the RMU office provided by RMU. The application requires two forms of identification: one that is a government-issued picture identification, such as a driver's license and a copy of a rental agreement or proof of ownership. Applicants must also provide their business address and billing

information, including their federal Tax ID number. Applicants must also sign an acknowledgment verifying that they completed the application accurately and authorizing Rochelle Municipal Utilities to make commercially reasonable inquiries with credit bureaus, employers and creditors. Customers who change locations in RMU territory are required to apply for service at the new service address and provide a completed application, forms of identification, and proof of ownership even if they have previously had service with RMU elsewhere.

If the customer is not the owner of the property serviced by RMU, then the consumer shall consent to the owner of the property obtaining a copy of all unpaid utility bills and a copy of any utility disconnection notice, as a condition precedent to receiving any services from RMU.

Under section 98-5 of the City of Rochelle Ordinances, the owner and the consumer of the utility service shall be jointly and severally liable to pay for the service to such premises, and the service is furnished to the premises by the City only upon the condition that the owner and the consumer of the service are jointly and severally liable therefor to the City.

When contracting with vendors and suppliers, the City of Rochelle and RMU will require representations and warranties to ensure that counterparties are in good legal standing and duly authorized to enter into and legally perform their obligations; and that they are not bankrupt or involved in pending or threatened legal proceedings that could adversely affect their ability to perform their obligations.

The City of Rochelle and RMU do not have a specific program or policy designed to protect against money-laundering or other illegal activities on the part of their counterparties and RMU does not have a designated Anti-Money Laundering Compliance Person. However, the City Manager is responsible for ensuring that appropriate due diligence is performed on all suppliers, vendors and counterparties.

H. Anti-Bribery and Anti-Corruption Policy

City of Rochelle and RMU are committed to preventing corruption, bribery and other financial crimes and to ensure compliance with all relevant laws.

The duties and responsibilities of City public officials and employees are specifically laid out in the City's Code of Ordinances. City of Rochelle public officials and employees are subject to a Code of Ethical Conduct. All records kept by an officer of the City are open for inspection.

RMU carries an anti-crime insurance policy that covers the utility if employees are dishonest or engage in fraud or other forms of criminal activity, including funds transfer, forgery, counterfeit currency and computer fraud.

The City of Rochelle and RMU do not have a specific program or policy designed to protect against money-laundering or other illegal activities and RMU does not have a designated Anti-Money Laundering Compliance Person. However, the City Manager is responsible for monitoring and enforcing the city's anti-corruption and anti-crime policies with respect to RMU customers, staff and employees.