



## ISO Risk Management Policy

### **Market Participant Description:**

The Northern Illinois Municipal Power Agency (NIMPA) is a project-based, joint action municipal power agency, and a body politic and corporate of the State of Illinois. NIMPA's members currently consist of three Illinois municipalities – Batavia, Geneva, and Rochelle.

NIMPA was established for the purpose of effecting the joint development of electric generation resources for the production, transmission, and distribution of electric power and energy to its members. As a project-based agency, NIMPA undertakes obligations to supply power and energy to its members only when requested by members to do so. NIMPA is not responsible for supplying the full power and energy requirements of agency members.

NIMPA's only current asset is a 7.6% undivided ownership share of the Prairie State Energy Campus (PSEC) – a 1,630 MW pulverized coal-fired generating facility located in Marissa, Illinois, within the MISO footprint.

NIMPA pseudo-tied its respective share of the PSEC into the PJM Balancing Authority Area pursuant to a Pseudo-Tie Agreement with PJM and Ameren dated July 2018 (replacing the previous Dynamic Transfer Agreement effective since June 1, 2016).

As an owner of a pseudo-tied resource, NIMPA is a Market Participant in both the MISO and PJM Independent System Operator (ISO) markets. NIMPA has a 130 MW Point-to-Point Transmission Service Reservation effective until September 1, 2041. Of the 130 MW reservation, 126 MW are reserved for PJM market participation through the pseudo-tie. The remaining 4 MW are dedicated to MISO and are used for station service purposes.

NIMPA has sold all rights to its capacity and energy from PSEC pursuant to take-or-pay power sales agreements with the cities of Batavia, Geneva, and Rochelle. These three municipal members are all load serving entities in PJM.

NIMPA has authorized Avant Energy, Inc. ("Avant") to act as Agent on its behalf in the PJM market for all Generator Responsibilities and Market Buyer/Market Seller Responsibilities pursuant to a Declaration of Authority agreement executed on and filed with PJM in November 2015.

## **Oversight, Governance, and Compliance:**

As a participant in multiple Independent System Operator (ISO) markets, including PJM and MISO, NIMPA is required to maintain a written risk management policy as outlined in PJM and MISO's tariff.

NIMPA must certify to the ISOs annually that it has such a written policy in place. Annual review and certification of the PJM Risk Policy will be completed by the President of NIMPA as part of the PJM Annual Recertification Process. Any edits, updates, or changes to the risk management policy require review and approval by the NIMPA Board of Directors.

Below is the current ISO risk management policy for NIMPA as adopted by the NIMPA Board of Directors.

### **I. Review and Reporting**

- a. ISO risk exposures will be reviewed quarterly by the NIMPA's financial management services provider. This review will include, at a minimum:
  - Value of FTR positions
  - Value of forward capacity sales
  - Value of forward electricity purchases, if any
  - Credit exposure by non-ISO counterparty, if any

### **II. Training**

- a. Employees of Avant transacting on behalf of NIMPA in ISO markets shall have appropriate training. Depending on the task of the employee, this training may include:
  - Applicable ISO Tariff
  - Market Overview and Structure
  - Market Mechanics
  - Systems for Interacting with the Market (Market Portal, Webtrader)
  - An understanding of limits on transaction authority
  - Reviewing Settlements and Invoices from ISO markets
  - Communications with ISO market personnel
- b. Avant employees transacting on behalf of NIMPA in the ISO markets are registered as PJM Certified Generation Dispatchers or are working under the direct supervision of a registered PJM Certified Generation Dispatcher. Avant employees are not required to be PJM Certified Generation Dispatchers, since generation dispatch communications for PSEC pseudo-tied entities are handled through a Single-Point-of-Contact as requested by PJM. The three PSEC owners who have pseudo-tied PSEC generation from MISO to PJM (NIMPA, AMP, and IMEA) have all executed Declarations of Authority to appoint ACES Power Marketing as the Single-Point-of-Contact for PJM PSEC pseudo-tied entities. All communications for PSEC's pseudo-tied members are handled through the Single-Point-of-Contact per PJM's request. Avant is responsible for the generation offers, bilateral scheduling transactions (including delivery of MWhs to NIMPA

members and pseudo-tie transactions with the ISOs), FTR transactions, and capacity market transactions of NIMPA.

### **III. Internal Control and Segregation of Duties**

- a. Only employees designated by Avant's Chief Operating Officer, Senior Vice President, or Vice President of Market Operations shall have the authority to transact business in ISO markets and with other counterparties on behalf of NIMPA. This designation shall be reviewed no less than annually and as needed when personnel changes occur.
- b. Each such employee shall have a specific list of approved transaction types and dollar limits for which they can transact. Avant will limit the type of transactions available to each employee based on their respective role responsibilities and in accordance with the appropriate level of training on the relevant market transactions. Avant will limit the transactions available to employees through the PJM Market Tool.
- c. Back office employees review and verify transactions and will only have "read" level access to the ISO Portals and Webtrader.

### **IV. Other Policies**

- a. All front and back office employees shall meet annually to review this policy, transaction authorities, risk limits, and to communicate any other risks as appropriate.
- b. Authority for ensuring compliance with this policy rests with the Controller of Avant Energy. This person shall be responsible for ensuring that the annual certifications to ISO markets are made.

### **Strategy:**

NIMPA has sold all rights to its capacity and energy from PSEC pursuant to take-or-pay power sales agreements with the cities of Batavia, Geneva, and Rochelle. These three municipal members are all Load Serving entities in PJM. As an Agency, NIMPA is required to deliver 120 MW per hour to its members based on their respective project participation shares.

NIMPA's share of PSEC is a PJM registered capacity market resource and has a must-offer capacity obligation. NIMPA participates in forward PJM Reliability Pricing Model auctions. Pursuant to NIMPA's pseudo-tie agreement, the capacity and energy for NIMPA's respective share of PSEC are non-recallable and designated to the PJM markets.

As a registered capacity resource, NIMPA's share of the PSEC generation resource is subject to a must-offer obligation and is offered into PJM's Energy Market daily. The MWhs (and/or revenues earned) from the generation resource are used to offset the hourly energy deliveries to NIMPA members (PJM load serving entities). In the event PSEC is on outage, derated, or otherwise

unavailable, NIMPA procures Back-Up Energy pursuant to the Back-Up Energy Policy outlined in Attachment A to this Risk Policy.

NIMPA participates in PJM's FTR markets to manage its congestion risk and basis between its generation asset (PSEC) and member delivery points (the City of Batavia, Geneva, and Rochelle). NIMPA participates in PJM's annual and monthly FTR auction markets to manage this congestion risk. FTRs are purchased during competitive annual, monthly, or otherwise forward PJM FTR market auctions through a competitive bidding strategy. NIMPA does not engage in any speculative ARR/FTR trading activities. All ARR/FTR activities on behalf of NIMPA are associated with its obligation to deliver power to its members and nodal prices from NIMPA's PSEC resource.

## **Risk Management**

### **I. Counterparty Credit Risk**

- a. NIMPA will review the credit ratings of its counterparties on an annual basis. If NIMPA has extended a counterparty more than \$1,000,000 of credit, its credit will be reviewed on a quarterly basis. The annual credit review will be provided to the NIMPA Board of Directors.
- b. If it finds that there has been a material deterioration in a counterparty's credit (such as a decrease of a rating by Moody's or Standard and Poor's), NIMPA will discuss the situation with the counterparty.
- c. Depending on its findings, NIMPA will invoke the security provisions of its contract, seek a more secure arrangement, or initiate termination of the transaction.
- d. NIMPA's Investment Policy, as adopted by the Board of Directors, contains credit restrictions on NIMPA investments.

### **II. NIMPA Liquidity Risk – Cash**

- a. It is NIMPA's objective to maintain a minimum cash balance of \$5,000,000 in the Operations and Maintenance account created under NIMPA's bond indenture.
- b. NIMPA has a capital adder account and reserve & contingency account that can be accessed in the event of an unplanned significant capital outlay.
- c. NIMPA maintains a \$15,000,000 line of credit with PNC Bank to address liquidity risk. A portion of this line is used for letters of credit with ISOs to support financial transmission rights (FTR) collateral requirements, while the remainder of the line is available if NIMPA has liquidity needs.

### **III. NIMPA Liquidity Risk – Energy and FTR Market Transactions**

- a. NIMPA will originate pricing of hedge and FTR transactions at liquid trading points whenever possible.
- b. If a liquid trading point is abandoned, NIMPA should take actions to flatten its purchase and sale transactions at such point (e.g. countertrade the position(s) with creditworthy parties) for transactions with a value of more than \$1,000,000.

### **IV. NIMPA Energy Market Risk**

- a. NIMPA will conduct annual analyses to evaluate the effectiveness of hedge positions, if any.
- b. NIMPA's back-up purchasing policy is included in this risk management policy as Attachment A below.

#### **Generation Assets:**

NIMPA's only current asset is a 7.6% undivided ownership share of the Prairie State Energy Campus (PSEC) – a 1,630 MW pulverized coal-fired generating facility located in Marissa, Illinois, within the MISO footprint.

The generating station consists of two supercritical coal units (Prairie State Unit 1 and Prairie State Unit 2) with a nominal net output capacity of ~815 MW each. The Prairie State Energy Campus generating station is situated adjacent to underground coal reserves owned by the Prairie State Participants. PSEC includes operation of a coal mine that is anticipated to supply all fuel requirements for the life of Prairie State.

#### **Load Serving:**

NIMPA as an agency does not have any load serving obligations in the PJM Market. NIMPA has fixed delivery obligations to its members through Power Sales Agreements executed with each of the member utilities. NIMPA's members are load serving entities in PJM and are each independently registered Market Participants in PJM.

#### **Due Diligence and Know Your Customer (KYC):**

NIMPA's only direct customers are its three members. NIMPA has sold all rights to its capacity and energy from PSEC pursuant to take-or-pay power sales agreements with the cities of Batavia, Geneva, and Rochelle.

NIMPA members are Illinois municipalities that own and operate electric distribution systems for the sale of electric power and energy to customers located within their corporate boundaries. Each municipality's electric system is governed by a city council. Rates and charges for electric service are set by the relevant authority granted in each community.

**Anti-Money Laundering Policy:**

NIMPA is committed to preventing money laundering, corruption, bribery, and other financial crimes and to ensure compliance with all relevant laws, sanctions and Foreign Corrupt Practices Acts.

This policy applies to all officers, directors, and agents of NIMPA. NIMPA has no employees. This policy covers all financial transactions and activities conducted by or on behalf of NIMPA.

NIMPA prohibits and actively prevents any use of its services for money laundering, financing of terrorism, or other illicit activities. NIMPA is committed to:

- Ensuring compliance with all applicable AML laws and regulations
- Implementing internal controls and procedures to detect and report suspicious activities
- Conducting an annual review of its market operations to determine whether any AML training is necessary, and, if so, ensuring that such training is provided to appropriate people.

Avant, as agent for NIMPA, designates its Controller as the AML Compliance Officer responsible for implementing and enforcing AML policies, conducting risk assessments, ensuring any necessary training programs are in place, and reporting suspicious activities.

However, it is noted that the transactions NIMPA engages in, and counterparties it engages with, are very limited. NIMPA's primary counterparty is PJM, the Independent System Operator that manages the electric grid that the MWhs of NIMPA's only resource are sold to, and delivered through, to NIMPA's members. PJM is a registered Independent System Operator regulated by the Federal Energy Regulatory Commission (FERC).

## **Attachment A – Back-Up Energy Purchasing Policy**

### **Introduction**

Per the Power Sales Agreement between NIMPA and its members, NIMPA must provide its members the energy associated with their respective shares at a 100% capacity factor. Thus, in any hour when NIMPA's share of Prairie State generation is not providing 100% of its capacity value, NIMPA must provide the MWh difference to the participating members. This is known as back-up energy. This document describes cases in which back-up energy would be required and provides the options and guidelines by which NIMPA will purchase the required back-up energy.

### **Back-Up Energy Quantities and Duration**

Back-up energy will be needed from time to time in quantities ranging from 1 MW to the entire amount of NIMPA's ownership share of Prairie State. The occasions in which the full quantity of PSGC energy would not be available to NIMPA are summarized below:

- 1. Economics** – Economic derates based on the offer curve used by the PSGC scheduling agent may result in PJM clearing the facility to generate at lower than its maximum capacity. The duration of economic derates/outages would likely be short term with varying MW quantities.
- 2. Derates** – The units may be derated due to ambient air conditions or equipment issues at the plant. Extremely warm temperatures and/or humidity could cause the unit(s) to perform at less than rated levels. Weather related derates are usually short lived and less than 10% of plant output. Equipment derates could include problems with boiler tubes, coal mills, ID/FD fans, etc. Depending on the severity, derates due to equipment issues can last for long periods of time. However, the more likely scenario is that a unit is derated only until the unit can be taken offline and repaired or repaired while in service.
- 3. Forced Outages** – The units may be forced offline due to failures of one or more systems. A forced outage results in 100% loss of unit output.
- 4. Maintenance Outages** – Maintenance outages are planned outages taken during the year to perform preventative maintenance as well as any maintenance items that have occurred that did not cause a forced outage.

A maintenance outage normally lasts from two to ten weeks depending on the work being performed. However, there are occasions when a maintenance outage may only last a few days.

## **NIMPA Back-up Purchasing Guidelines**

In providing back-up power to its members, NIMPA can either purchase the power in the daily spot market through PJM or purchase forward blocks of power from a counterparty. Forward purchases are usually only made for whole months, although weekly or balance of month purchases can be made with some counterparties. The following describes the general guidelines for the provision of back-up energy.

1. **Economic and physical derates** - Given the uncertainty of the timing, duration, and quantity of economic or physical derates, NIMPA should use the spot market for these events rather than forward blocks of power. In these instances, the back-up energy will be automatically purchased from the RTO as part of the normal scheduling procedures developed for delivery of power to the member cities.
2. **Forced outages** – The timing of a forced outage is unknown until the event happens, and the length can be estimated only after PSGC has assessed conditions. The duration of a forced outage can vary significantly based on the root cause of the forced outage. Forced outages can range from several hours, to several weeks, or even months if caused by a catastrophic failure of a key piece of equipment. In the event of a forced outage, NIMPA will immediately and automatically procure back-up energy in the daily spot market and will evaluate its future need for backup energy. If the forced outage is expected to last less than two (2) weeks, NIMPA’s primary approach to backup energy will be in the daily spot market from the RTO. If a forced outage is expected to last more than two (2) weeks, NIMPA may consider a forward purchase. Outages expected to last longer than a month should be considered for forward purchases, although NIMPA recognizes there may be considerable premium in forward market offers and daily spot purchases from PJM be preferable.
3. **Maintenance outages** – Because of the planning required, maintenance outages are generally known months in advance and involve the loss of generation for 2 to 10 weeks. Once the schedule is known, NIMPA may consider the purchase of forward power for the month(s) in which the outage is occurring. If the outage overlaps a month, NIMPA would not normally purchase forward power for periods of less than two (2) weeks.

NIMPA recognizes that maintenance outages are usually scheduled during times of lower volatility and market pricing, and that spot purchases from the PJM market may be the optimal source of back-up energy.

## **Purchasing Process**

This section establishes the process NIMPA will use to obtain back-up energy. Specifically, NIMPA staff is authorized to execute purchases under the following conditions:

- **Spot Purchases** – NIMPA staff shall execute spot purchases through the normal RTO scheduling process, and such purchases flow automatically to the participating members. NIMPA staff summarizes these spot purchases on a monthly basis through a monthly management report presented to the NIMPA Board of Directors.
- **Forward Purchases** – Forward products will be purchased as soon as the need for the purchase is identified, but in no case more than twelve months in advance. NIMPA staff will purchase forward products in standard block sizes<sup>1</sup> subject to the guidelines below.

If a forward purchase is required for a period of less than four months, NIMPA staff will affect the appropriate forward purchases. Depending on market conditions and Prairie State's expected generation, some of the necessary back-up energy may be obtained in the spot market. NIMPA staff will summarize these forward purchases on a monthly basis.

If a forward purchase is required for a term of 4 months or longer, NIMPA staff will obtain NIMPA Board or, if applicable, Project Committee approval before executing a confirmation. NIMPA staff will determine the term and quantities required and notify the board as to the term, quantity and current market prices. The Board or Project Committee will then approve a not-to-exceed price for the forward purchase. After receiving this approval, NIMPA staff will purchase the forward power at its discretion.

NIMPA staff will report the term, quantity, pricing and counterparty of all forward transactions to the NIMPA Board or, if applicable, Project Committee as soon as the transactions are entered. This information should be treated confidentially.

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<sup>1</sup> Forward products will be purchased in standard block sizes with any remaining energy being covered with spot purchases.



**Northern Illinois Municipal Power Agency  
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Version History**

<u>Version</u>	<u>Effective Date</u>	<u>Notes</u>
1.0	April 20, 2016	Policy Approved by NIMPA Board of Directors
2.0	June 27, 2024	Presented to NIMPA Board for Approval