

BPA Policy 231-3
Transmission Transacting
Risk Management
Compliance, Audit and Risk

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1.1 Purpose & Background

To establish the Bonneville Power Administration's (BPA) policy for managing risks of Transmission Service related transactions.

This policy covers transactions for the purchase, sale, assignment, exchange, or settlement of transmission services and contracts that are directly related to the implementation and administration of these transactions, except the contracts that are explicitly excluded under section 231-3.6, "Policy Exceptions."

1.2 Policy Owner

The Executive Vice President of Compliance, Audit and Risk working through the Chief Risk Officer or his/her designee has overall responsibility for monitoring, reporting, deploying, evaluating, and proposing revisions to this policy. The Senior Vice President for Transmission Services has primary responsibility for execution of this policy.

1.3 Applicability

This policy applies to transactions related to Open Access Transmission Tariff (OATT) transmission service agreements, and to non-OATT agreements, such as grandfathered Integration of Resources (IR) or Formula Power Transmission (FPT) agreements. It also applies to any settlements of transmission service agreements, and other agreements that are not specifically excluded.

1.4 Terms & Definitions

- A. **Agency Decision Framework (ADF):** The agency-wide procedure followed to make decisions concerning transactions that bind BPA. The ADF is a scalable approach to identifying a proposed action and presenting the justification and risks prior to approval.
- B. **Audit, Compliance & Governance Committee (ACGC):** The ACGC is a senior management forum to obtain assurance about effective internal controls and compliance over BPA objectives. This committee is responsible for establishing risk tolerances for BPA commercial transacting risks and provides guidance to the ROC in the development of relevant risk programs and policies.
- C. **Back Office:** For the purpose of this policy, the Back Office includes the groups that have functional responsibility for financial accounting and reporting, treasury and cash management, auditing, contract administration and billing, and after-the-fact settlement for Transmission Service Related Transactions. At BPA these functions are located within different parts of the agency.
- D. **Emergency:** Any abnormal system condition which requires immediate manual or automatic action to prevent loss of load, equipment damage, tripping of system elements or any other consequence that could threaten BPA's ability to meet minimum operating reliability criteria or environmental requirements, including the Endangered Species Act and Total Dissolved Gas Limitations.

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- E. **Front Office:** For the purpose of this policy, the Front Office includes the groups within Transmission Services that have functional responsibility and delegated authority for directing, organizing, executing, amending, terminating, settling, and interpreting contracts in connection with Transmission Service Related Transactions. The Front Office includes the Transmission Sales Organization including Customer Account Executives and support staff.
- F. **Middle Office:** For the purpose of this policy, the Middle Office includes the groups that have functional responsibility to independently monitor and report the levels of risk being taken and risk management activities of the agency. This includes market and credit risk associated with Transmission Service Related Transactions. The Middle Office assesses the effectiveness of BPA’s system of controls over market, credit, and operational risk, including Transmission Service Related Transaction processing systems.
- G. **Open Access Transmission Tariff (OATT):** Provides the terms and conditions for transmission and transmission-related services provided within the BPA Balancing Authority Area (BAA). It also requires that BPA provide non-discriminatory, open-access transmission for all similarly situated customers in its BAA.
- H. **Risk Oversight Committee (ROC):** The ROC is a senior management level committee that has responsibility for ensuring that risk management monitoring systems and limits are in place to govern commercial transacting risks across BPA, within the parameters established by the Audit, Compliance & Governance Committee (ACGC).
- I. **Transmission Service Related Transactions:** Transactions for the purchase, sale assignment, exchange, or settlement of transmission services and contracts that are directly related to the implementation and administration of these transactions, including OATT transactions.

1.5 Policy

This policy ensures that Transmission Service Related Transactions (including all exercises and waivers of rights under Transmission Service Related Transactions) are entered into with full knowledge and understanding of the risks associated with the execution of the terms and conditions of the transactions, and is consistent with the risk tolerance of the agency. This policy lays out the processes and procedures designed to deliver on this overarching objective.

BPA enters into Transmission Service Related Transactions, in accordance with defined risk tolerances in order to serve customer needs for the delivery of electric power and to manage the reliability of the transmission system. This policy applies to all Transmission Service Related Transactions (including, except as otherwise provided herein, the initial entry into the transaction, and amendments, conversions, settlements, and terminations), except those specified in section 231-3.6, “Policy Exceptions.”

This policy supersedes all existing or prior Transmission Services Transacting Risk Management-related policies, or parts of policies, that address the activities encompassed

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by this policy. The requirements of this policy are in addition to and do not supersede any requirements defined in other BPA policies.

1.6 Policy Exceptions

This policy does **NOT apply** to the following transactions:

- A. Supply Chain Contracts
- B. Operations and Maintenance Agreements
- C. NERC and WECC Transmission System Reliability Standards and Operation Agreements
- D. Insurance Contracts
- E. Planning, Customer Service Engineering, and Laboratory Test Reimbursable Agreements
- F. Fiber and Wireless Agreements
- G. Litigation Settlements
- H. Balancing Authority Area Services Agreements (BAASA)
- I. Interagency Agreements
- J. Non-Generation Interconnection Agreements
- K. Dynamic Transfer Agreements
- L. Intra-hour Scheduling Agreements
- M. Transmission Operator Agreements
- N. Escrows
- O. Customer Data Entry Agreements
- P. Customer Portal Agreements
- Q. Non-disclosure Agreements
- R. Reservation Agent Agreements
- S. Letters of Credit
- T. Bill of Sale (facility)
- U. Dispatchable Energy Resource Balancing Services Agreements (DERB)
- V. Variable Energy Resource Balancing Services Agreements
- W. Facility Lease Agreements
- X. Engineering and Procurement Agreements
- Y. Use of Facilities Agreements
- Z. Emergency Transactions

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AA. Power Services' Transmission Purchases Transactions

1.7 Responsibilities

Functional separation of duties is a foundational element of an effective risk management program. BPA has chosen to implement a transmission transacting risk management organizational structure that includes a Front, Middle, and Back Office. The Front Office is responsible for transacting in transmission service related products within the guidelines of this policy. Between deal execution and deal settlement, the Middle Office, or Risk Management function, is responsible for analyzing the transactions executed by the Front Office to ensure they comply with risk limits, imposing credit risk control, and assessing financial performance and risk. The Back Office is responsible for most contract administration issues, including deal confirmation, settlement, and billing and collection once contract terms have been fulfilled. The Back Office also is responsible for Treasury activities and financial accounting and reporting.

- A. The Audit, Compliance & Governance Committee (ACGC):** Establishes broad boundaries for BPA's risks in order to guide the Roc in the development of the transmission and power transacting risk management program, as specified in the ACGC Charter. The ACGC is also responsible for approving all risk management policies.
- B. Risk Oversight Committee (ROC):** Serves as the key decision-making body in the oversight of BPA's Transmission Service Related Transacting risks as specified in the ROC Charter. The ROC establishes risk management limits and structure, consistent with the direction from the ACGC. The ROC is responsible for ensuring that risk management monitoring systems and limits are in place to govern Transmission Service Related Transacting risks within the parameters established by the ACGC. The ROC has the authority to approve individual exemptions to the requirements of this policy.
- C. Front Office:** Has the authority to transact to manage commercial and operational objectives and risks. The Front Office is composed of individuals who transact, deliver, or directly support transacting and delivery activities on behalf of BPA. This group:
1. Ensures that transactions do not violate any risk limits referenced in this policy.
 2. Ensures that counterparties have adequate available credit to accommodate all transactions.
 3. Ensures that contracts meet all contract administration, risk management, finance and accounting requirements, and are consistent with guidance from BPA's Office of General Counsel and Finance before being offered for signature to customers.
 4. Maintains counterparty information.
- D. Middle Office:** The Middle Office, or risk management, is headed by the Manager of Transacting and Credit Risk Management, who reports to the Chief Risk Officer (CRO) of BPA, neither of whom report to any person(s) having direct execution responsibilities for risk-taking or risk-mitigating activities in this policy. The Middle Office:

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1. Reviews transactions for compliance with this policy.
 2. Independently monitors and reports the risk taking and risk management activities of the Front Office organization to Front Office Management, the CRO of BPA, and the ROC.
 3. Assesses the effectiveness of the organization’s system of controls over market, credit, and operational risk, including transaction processing systems.
 4. Develops and submits for ROC approval appropriate risk measurement methodologies for credit, market, and operational risks.
 5. Notwithstanding anything else in the policy, if in the judgment of the CRO, the transactions or strategies undertaken by Transmission Services are exposing BPA to an inappropriate level of risk, the CRO informs the relevant committees, including but not limited to, the ROC, ACGC, TMC, and/or the BPA Administrator.
- E. Back Office:** The groups that comprise the Back Office are responsible for the proper and timely capture, reporting, and processing of Transmission Service Related Transactions and contracts covered by this policy. The Back Office:
1. Establishes and oversees agency customer contract governance policies, internal controls, rules, procedures, and standards for commercial business.
 2. Establishes, operates, and maintains agency metering and customer billing, load forecasting, and settlements.
 3. Reviews, records, and discloses contracts appropriately in the FCRPS and BPA external and internal financial statement reports in accordance with applicable generally accepted accounting principles including any required fair-value measurement and accounting.
 4. Processes, and tracks corporate guarantees and letters of credit in tandem with BPA’s Office of General Counsel and the Middle Office.
- F. Other functional area responsibilities:**
1. Internal Audit coordinates with the ROC to perform periodic risk-based audits, assessments, and tests of transactions and the transacting processes.
 2. BPA’s Office of General Counsel and Finance review contracts as they are being developed and negotiated.
 3. Information Technology (IT) manages software, hardware, and telecommunications systems. IT establishes and maintains effective standards and procedures for existing and new software system development and maintenance.

1.8 Standards & Procedures

A. Transaction approval: This policy distinguishes the approval process for transactions in two categories: standard transactions, which do not require ROC approval prior to

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execution, and non-standard transactions (any transaction that is not a standard transaction), which require ROC review and approval prior to execution.

1. **Standard transactions:** For the purpose of this policy, the following OATT contracts are considered standard transactions and the Front Office is authorized to execute these transactions without prior ROC review:

- a. Point-to-Point and Network Integration Transmission Service Agreements
- b. OATT-related study agreements
- c. Large Generator Interconnection Agreements (LGIA)
- d. Small Generator Interconnection Agreements (SGIA)
- e. Large and Small Integration Agreements
- f. Line/load Interconnection Agreements
- g. Network Open Season Precedent Transmission Service Agreements (NOS PTSA)

Where there is any uncertainty as to whether a contemplated transaction is a standard transaction, the originator or his/her management must consult with the Transacting and Credit Risk Manager and Manager of Transmission Sales for resolution. If these parties cannot agree, then the issue will be referred to the Senior Vice President of Transmission Services and the CRO. If these parties fail to reach agreement, then the matter will be referred to the ROC for final resolution.

Under no circumstances may a transacting organization combine multiple standard transactions for the specific purpose of avoiding review by the ROC. If the CRO has a reasonable belief that such action has occurred or will occur, the CRO will report the matter immediately to the ROC and the ACGC with a copy to the management of the transacting organization involved. The transacting organization will be required to explain the purpose of the transactions in question to both committees in writing within five business days of receipt of notice.

2. **Process for ROC review of non-standard transactions:**

- a. When the Front Office proposes a transaction that is not a standard transaction (non-standard transaction), the transaction and ADF must be submitted to the TOC for review and approval prior to execution. The Middle Office will work with the transaction originator to ensure that any specified requirements and standards then in effect for presentation of proposals to the ROC are met.
- b. If the Front Office and the Transacting and Credit Risk Manager disagree on whether the proposal is ready for ROC review, the issue will be appealed to the Chair of the ROC. If the Chair of the ROC concludes that the proposal is not ready for ROC consideration, the Front Office manager may present an appeal to the ROC for consideration. The ROC will either accept the transaction for review or determine that adequate review requires additional analysis, documentation, or

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approval. After review, the ROC may approve, disapprove, or impose conditions of approval on the transaction, or it may require further information to be submitted for review. Other organizations may need to provide support for the review of a proposed non-standard transaction.

B. Transmission Management Committee (TMC) review of transactions

1. The ROC may determine that a proposed transaction has specific attributes, issues, or risks that are deemed significant and are beyond the scope of ROC review. If so, the CRO will communicate these attributes, issues, or risks to the TMC.
2. The CRO will ensure that sufficient analysis and documentation are provided to the TMC to make a risk informed decision on the appropriateness of any proposed transaction. While the Front Office will determine when the proposal is ready for TMC presentation, the CRO will verify that appropriate analysis and documentation consistent with the requirements of the ADF have been developed for the proposed non-standard transaction. The CRO will inform the Front Office and the TMC of any deficiencies in the analysis and documentation provided for the proposed transaction.

C. Transactions or operations in an emergency: Nothing in this policy will or is intended to limit, condition, or restrict transactions or operations that are effected by BPA to respond to an Emergency and the need to restore or assure continuous reliable system operations. Any otherwise applicable limitations in this policy are waived during an emergency.

D. Alternative non-standard transaction approval process

1. For non-standard transactions that meet the criteria below, the CRO has the authority to approve such transactions without prior ROC review. The CRO, at his or her discretion, may consult with one or more ROC members before making a decision.
2. The CRO may approve a non-standard transaction if it meets all of the following criteria:
 - a. The duration is one year or less; and,
 - b. The notional value is \$10 million or less (if the transaction is any kind of exchange, the total notional value of both sides of the transaction, what BPA is delivering and what BPA is receiving, is \$20 million or less).
3. If the CRO declines to employ this alternative non-standard transaction review process, the decision may be appealed to the Senior Vice President of Transmission Services and the Deputy Administrator. If they determine that the value and immediacy of the proposed transaction opportunity outweigh the value of the standard ROC review process, they will direct the CRO to poll the ROC members via e-mail to determine if they approve the proposed non-standard transaction.
4. Regardless of the outcome, the CRO will inform the ROC of any decision made under this alternative approval process within two business days of a final determination.

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- E. Transactions that change after ROC approval:** If the terms of a transaction are modified after the ROC has approved the transaction, the transaction originator will inform the Transacting and Credit Risk Manager of any such changes from the contract terms that were approved by the ROC. If the Transacting and Credit Risk Manager determines that the terms and conditions of the transaction have materially changed since ROC approval, he or she will inform the originator and the ROC.
- F. Non-adjudicated settlement limits:** Any settlement with a single counterparty which results in a financial loss in excess of \$100,000 must be reported to the CRO and documented by the Back Office with the following detail: the counterparty, the amount of settlement, the staff point of contact, the final contract or identifier, the date of settlement, the delivery period if applicable, the price, the volume, and a brief description of settlement discrepancy and root cause analysis. Prior approval of the settlement by the ROC is not required.
- G. Credit risk limits:** The credit risk associated with any transaction that is covered by this policy may not exceed the limits described in the BPA Transmission Credit Risk Management Policy. Any exceptions must be approved by the ROC.
- H. Changes to this policy and appendices:** Policy change requests require review and approval by the ROC and the ACGC.
1. The person or organization sponsoring the policy change request must document the proposed change through an ADF and present the change to the ROC and ACGC. The person or organization sponsoring the policy change request and the CRO will determine the level of rigor that is needed for the justification that will be presented to the ROC and the ACGC. Such justification will conform to the standards of the ADF and any standards specified by the ROC and the ACGC. Each policy change request will contain the following information, as applicable: the language to be changed in the policy, the reason for the proposed change, a list of affected organizations, an assessment of the extent of the change upon operations and risk, and a timeframe for implementation.
 2. Proposed amendments that are not substantive in nature, such as factual, typographical, formatting, or grammatical corrections, and changes to organizational titles of members may be approved by the CRO and do not require an ADF.
 3. Stakeholder organizations within BPA that may be affected by the proposed policy change, including, at a minimum, affected Front Office organization(s), Risk Management, Contract Administration, Billing, Finance, and the Office of General Counsel, are provided an opportunity to review and comment on the draft ADF. Each stakeholder reports the results of this review to the person or organization sponsoring the policy change request and the CRO. If the modification requires new systems or additional custom reporting from Information Technology (IT), the person or organization sponsoring the policy change request has the responsibility to coordinate with IT to ensure the change can be supported.

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4. As part of its review, the CRO must assess whether all steps of this process have been satisfactorily performed, and whether the proposal is ready for ROC and ACGC review.

I. Policy Compliance

1. **Noncompliance:** Noncompliance with the provisions of this policy, including misrepresentation or concealment of information regarding any transaction covered by this policy from the Middle Office, the ROC, or any person responsible for the accurate recording and reporting of each transaction, may result in disciplinary action in accordance with Federal employee regulations and applicable laws.
2. **Policy Notification:** Current risk management policies are readily available in the BPA Manual and posted on BPA’s internal Web site. ROC and ACGC members, managers, and staff affected by risk management policies receive e-mail notification from the CRO whenever the policy is amended, including a description of the changes.

J. Transmission expansion for commercial purposes: Due to changing market conditions or other factors, BPA may decide to reevaluate and update agency policies and procedures governing transmission expansion for commercial purposes (such as Network Open Season). Any significant changes to such policies and procedures must be reviewed by the ROC. The Vice President (VP) of Transmission Marketing and Sales determines, in consultation with the Chief Risk Officer, whether such changes are significant and must be reviewed by the ROC. If the VP of Transmission Marketing and Sales and the Chief Risk Officer cannot agree, then the question will be decided by the Senior Vice President of Transmission Services and the Deputy Administrator.

The Chief Risk Officer shall be responsible for appointing an individual within the Risk Management group to coordinate with other organizations, including Transmission Services, regarding changes to agency policies and procedures governing transmission expansion for commercial purposes. This individual shall also be responsible for facilitating and scheduling a ROC review of such changes.

1.9 Performance & Monitoring

- A. Monitoring and review: Encompasses all aspects of the risk management process to:
1. Analyze and learn lessons from events, changes, and trends.
 2. Detect changes in the external and internal context including changes to the risk itself.
 3. Ensure that the risk controls and treatment measures are effective in both design and operation.
 4. Identify emerging risks.

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B. Governance and Compliance: The BPA Internal Audit department designs and conducts, or arranges for outside specialists to conduct, audits and assessments of BPA’s compliance with this policy and associated procedures.

1.10 Authorities & References

- A. Audit, Compliance & Governance Committee (ACGC) Charter
- B. Risk Oversight Committee (ROC) Charter
- C. Transmission Sales Delegations of Authority
- D. Quality Assurance and Peer Review requirements
- E. Internal Stakeholder Review process
- F. BPA Policy 231.4, Transmission Credit Risk Management

1.11 Review

This policy is scheduled for review in 2020.

1.12 Revision History

Version	Issue Date	Description of Change
2	August 31, 2015	Migration of content to new policy format.
2.1	Oct. 16, 2017	Administrative update – updated document revision process to current standard. Original effective date retained.

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