



## Best Principles and Practices Policy for Transacting and Reporting Energy Related Products

Originally Issued as "Best Principles and Practices for the Transaction of Energy Related Products": November 13, 2002

Revised: May 1, 2009

Owner: Ethics and Compliance

### Summary & Scope

The following Best Principles and Practices Policy for Transacting and Reporting Energy Related Products (collectively the "Wholesale Best Practices") describes the minimum requirements for all RRI Energy employees when transacting with third parties in the purchase or sale of energy-related products ("Transactions") and reporting data from such Transactions to index developers on behalf of RRI Energy, Inc., and its affiliates (collectively "RRI" or "Company").<sup>1</sup> If state or federal law or regulations impose requirements greater than these Wholesale Best Practices, such requirements must be strictly followed.

Any employee who suspects that any bid, proposal, plant operation decision, or other conduct by an employee or officer of RRI is not in accordance with Company policy or applicable laws, regulations or tariffs is obligated to report the activity to the Company's reporting hotline (1-866-MY-ETHIC [1-866-693-8442] or [www.guideline.lrn.com](http://www.guideline.lrn.com)) or their supervisor.

All employees involved in the purchase or sale of power, natural gas or other energy-related commodities ("Employees") will be educated and trained annually regarding their legal and regulatory obligations. Employees who transact in physical gas commodities must record their Transactions ("Trade Logs") and provide Trade Logs to Ethics and Compliance upon request.

Prior to entering into Transactions on behalf of the Company:

Employees must:

- acknowledge this Policy, applicable Risk and Credit Control Policies, Business Ethics Policy and others as determined by Ethics and Compliance
- obtain approval to transact from the Employee's immediate supervisor
- acknowledge receipt of adequate training to use the Company's deal capture system(s).

Commercial management must:

- maintain a list of Employees who are authorized to execute transactions on behalf of the Company
- maintain a list of Employees who are required to transact on recorded telephone lines
- ensure Trade Logs are available and retained when an Employee leaves the Company
- provide quarterly Employee updates to Ethics and Compliance.

### I. Transacting Principles

- A. Bona Fide Business Purpose.** All Transactions must be entered into in good faith and must be for a bona fide business purpose (economic, hedging, risk-reducing, administrative, etc.).
- B. Internal Risk Compliance.** All Transactions must comply with RRI's most current Risk Control policies.
- C. Accurate Reporting and Communications.** All Transactions must be reported factually and accurately. Regulatory and Ethics and Compliance will coordinate all communications and reporting to governmental

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<sup>1</sup> RRI's Wholesale Best Practices are based upon the Electric Power Supply Association's Code of Ethics and Sound Trading Practices for Electric Power Suppliers (the "EPSA Code") adopted during the Summer of 2002, along with FERC's 2003 and 2004 Market Behavior Rules Orders and the subsequent codification of some of those rules in FERC's regulations, and FERC's 2006 final rule prohibiting energy market manipulation. Wholesale Best Practices revisions from September 2004 are based upon FERC's July 24, 2003 Policy Statement on Natural Gas and Electric Price Indices, as updated by the December 12, 2003 Order on Clarification of Policy Statement on Natural Gas and Electricity Price Indices.



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bodies including FERC, independent system operators (ISO's), regional transmission organizations (RTO's) and transmission providers.

- D. Approved Counterparties.** Transactions may be entered into only with counterparties approved in advance by the Credit and Risk Control Departments.
- E. Compliance with Applicable RTO/ISO Rules.** Employees shall comply with rules regarding unit availability and bidding procedures issued by each applicable RTO or ISO.
- F. Compliance with Physical Gas Capacity Release Requirements.** All applicable transactions must comply with capacity release posting and bidding rules and affiliate transaction rules. FERC regulations exempt a release from the competitive bidding requirements if it is for 31 days or less. However, such a release may not be extended or rolled over without complying with the competitive bidding requirements. A replacement shipper may not circumvent this bidding requirement by "flipping" (e.g., alternating the releases among the original replacement shipper's affiliates).

### II. Transacting Practices

#### A. Prohibited Practices

No employee shall, directly or indirectly, in connection with any Transaction (including transmission or transportation services) (1) use or employ any device or scheme to defraud, (2) make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, or (3) engage in any act, practice or course of business that operates or would operate as a fraud or deceit upon any entity.

Transactions prohibited by the foregoing statement include, but are not limited to, the following:

- 1. Round Trip Transactions.** These are transactions that are intended to offset each other and do not yield anything other than nominal profits or losses to the parties and do not expose the parties to price risk (e.g., a transaction aimed at puffing up trading volumes).
- 2. Wash Sales.** Wash sales are "pretended sales" (usually simultaneous or near simultaneous offsetting buy-sell transactions) that negate market risk and arms length price competition and are used for any number of improper purposes including setting a price in the market in order to price an unrelated contract; setting an artificial price in order to increase or lower prices in the market; moving transaction benefits or burdens from one time period to another for tax, accounting or other advantages; or creating a disguised loan that is used to pass money from one party to another for accounting or other purposes; creating the artificial appearance of liquidity in the market in order to induce participation by others.
- 3. Fictitious Transactions.** Fictitious transactions may include a wash sale, but also include any other Transactions that are prearranged or executed in such a way that negates market risk or arms-length price competition. Fictitious transactions include trades that appear to have been submitted to the open market or arms-length negotiation, but which are in fact prearranged to avoid market risk or the price competition that is inherent in competitive arms-length trading.
- 4. Unlawful Withholding.** Employees will not engage in activities or misrepresent the operational capabilities of generation facilities to affect market prices by unlawfully withholding available supply from the market in order to create artificial supply shortages.



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5. **Anomalous Bidding.** Employees may not bid to provide services or energy from a generation unit in a manner which is (i) contrary to applicable regulatory or ISO/RTO rules, (ii) is unrelated to the known performance characteristics of the generation unit or to changes in the supply environment, or (iii) which they knowingly intend not to perform, unless such action is expressly authorized by law or applicable regulatory or ISO/RTO rules.
6. **Artificial Creation of Congestion.** Employees may not engage in trading activities or schedule resources in a manner that is intended to create artificial congestion in order to profit from congestion management rules or payments.
7. **Megawatt Laundering.** Employees may not engage in or profit from trading activities or schedule resources with the intent to evade price controls by exporting power from a restricted area and then importing the power to receive a higher price than is otherwise available.
8. **Negative Net Present Value.** Transactions that have a net present value of zero or less at the time of transacting are prohibited without the prior written approval of the Ethics and Compliance Department and the relevant Vice President for that area.
9. **Gratuities.** A transaction must not be entered into to act as a "payback" for or to obtain any sort of gift, gratuity, bribe, kickback, entertainment or trip.
10. **Personal Accounts/Confidential Information.** Employees or their immediate families<sup>2</sup> may not buy or sell energy products for their personal accounts, except for standard retail purchases for consumption. Employees may not share or convey confidential information concerning energy-related products obtained during the scope of their employment with RRI with any non-RRI persons, except as may be required in their performance of their duties. Any questions regarding this issue should be discussed with the Ethics and Compliance Department.
11. **Misuse of Information.** Transactions may not be entered into based on information that has been misappropriated from a third party or an affiliate with captive customers (or obtained in a manner that violates a fiduciary or other legal obligation of the employee or RRI). Use of non-affiliate transmission information for commercial purposes is strictly prohibited. Non-affiliate transmission information shall not be communicated to commercial personnel without prior approval of the Chief Compliance Officer or his or her designee. Employees may not disseminate false or misleading information. The dissemination of false or misleading information can be subject to civil and criminal penalties.
12. **Affiliate Abuse.** Employees may not engage in any practice designed or intended to leverage an affiliate's ownership of its facilities or inputs in order to exercise market power or erect barriers to entry.
13. **Collusion.** Employees may not collude with other entities in order to carry out any of these Prohibited Practices or otherwise violate RRI's market-based rate tariffs or authorizations or any FERC rule, regulation or order.
14. **Market Manipulation.** Employees may not engage in any action or transaction that is without a legitimate business purpose and that is intended to or foreseeably could manipulate market prices, market conditions, or market rules for electric energy or other energy-related commodities. An action

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<sup>2</sup> For the purposes of this policy, "immediate families" refers to any member of the employee's immediate family by either blood or marriage and/or any person residing in the same household with the RRI employee.



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or transaction undertaken by an Employee that is explicitly contemplated in FERC-approved rules and regulations of an applicable power market (such as virtual supply or load bidding) or pipeline tariff or taken at the direction of an ISO or RTO is not in violation of this rule.

- 15. Index Manipulation.** Employees may not attempt to influence a published index by:
- executing a transaction for the purpose of manipulating or affecting an index;
  - deliberately capturing or reporting a Transaction inaccurately;
  - either reporting or causing the Company to report a Transaction that should not be reported; or
  - either failing to report or causing the Company to fail to report a Transaction that should be reported.
- 16. Commodity Trading Advice.** Employees may not function as a commodity trading advisor (“CTA”), including but not limited to, acting as a CTA under the [Commodities Exchange Act](#). This prohibition includes engaging in the business of advising others, either directly or through publications, writings, or electronic media, as to the value of or the advisability of trading in or recommending positions in natural gas, power, or any other energy or energy-related commodities to third parties or advising such parties on courses of action that may lead to their taking of positions based on such advice.

### B. Transactions which are allowed under certain circumstances

- 1. Parking.** Parking may be used in (a) scheduling “hourly-market” or “day-ahead” sales in conformance with ISO and RTO scheduling practices and FERC requirements or (b) a repurchase transaction that involves an agreement to buy and then sell back a commodity for legitimate business reasons such as to place temporary ownership in a commodity so that it may be stored or secured in an approved facility. Any energy parking transaction must be conducted for a proper business purpose, on an arms-length basis, and reflected in RRI’s books and records as permitted parking transactions.

Other than the transactions described above, parking transactions are generally prohibited. Parking transactions, which are not allowed typically, contain the following three elements:

- a pre-arrangement to sell and then buy back a commodity for the sole purpose of concealing true ownership;
  - the same, or substantially the same, terms (thereby keeping the market risk entirely on the seller); and
  - accomplished through a sham transaction in which nominal title is transferred to the purported buyer while the economic incidents of ownership are left with the purported seller.
- 2. Sleeves.** A sleeve is a multi-party transaction in which one or more parties acts as a facilitator for a transaction that offsets another transaction between the other parties to unwind existing positions, substitute counterparties, or deal with a counterparty with whom RRI has a more favorable contractual arrangement. Sleeve transactions may only be used to substitute counterparties or unwind transactions because of RRI’s or a counterparty’s performance, credit risk or contract concerns and must not contravene any applicable regulatory or ISO/RTO rules. For example, if RRI is concerned with a counterparty’s ability to pay for a product because of events arising subsequent to the contract’s execution and there is another unrelated party with stronger credit willing to assume that obligation, RRI may offset the position with the counterparty and enter into another transaction whereby the third party becomes the buyer from RRI and the seller to the counterparty (or vice versa). The internal records of RRI must accurately document those transactions and any public or other reports concerning such transactions must accurately reflect their nature. Sleeve transactions of any other kind are prohibited without prior approval of the Ethics and Compliance Department.



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3. **Book Outs and Netting.** Book outs and netting arrangements are permitted for scheduling, administrative and credit risk management purposes. Any questions concerning a proposed book out or netting transaction should be discussed in advance with the Ethics and Compliance Department.
4. **Accommodation Trading.** Accommodation trading is a term of art involving one party entering into a transaction with one or more counterparties in order to accommodate an improper or illegal interest that is not directly related to market risks. In general, RRI may enter into sleeves, book outs, ring trades or may otherwise transact with counterparties unless such trading appears to be designed to intentionally subvert accounting rules or appears designed to achieve a non-legitimate business purpose. RRI may not knowingly transact with parties affiliated with each other in offsetting transactions for the purpose of allowing the affiliated parties to manipulate their contracts via RRI for accounting or other potentially deceptive purposes.
5. **Ring Trades.** Ring trades among three or more parties are permissible if transacted to effectuate a counterparty risk transfer. All multi-party ring Transactions must be documented and pre-approved through the submission of a [Deal Approval Sheet](#).

### C. Areas to approach with extreme caution

An employee should review any Transaction that raises difficult decisions or issues with a supervisor prior to entering into such Transaction. One should proceed with extreme caution under the following conditions:

1. **Market Crisis.** Manipulation of the price or supply of a commodity is a criminal offense. Manipulation may be effected by false rumors, rigged trading that is designed to artificially push prices up or down (often by wash or other fictitious prearranged trades) or by the use of an entity's market power.

Manipulation can occur through trading or physical actions taken with respect to assets (generation or transmission) and is often claimed where there are crisis conditions in the market. Where there is a market crisis or a situation that causes concerns about potential manipulative activity, Employees must notify and review their commercial strategies with the Ethics and Compliance Department and Risk Control to assure that RRI's practices will not exacerbate the crisis or cause regulatory concern.

2. **Dealing in Developing Markets.** Energy markets are in various stages of transition to competition in the states or other jurisdictions where RRI conducts business. Experimentation with ISOs, power exchanges, control area governance structures, or other transitional arrangements may distort the market or cause it to exhibit structural or design flaws. When conducting business in these environments, Employees may not purposely undermine the objectives of promoting the transition to a fully competitive market or assuring reliability. When confronting a flaw in market design, RRI will do what is reasonably necessary to protect its interests and assure reliable delivery, but at the same time will actively advocate reform of any such flaw. RRI is committed to helping governmental authorities solve the problems which arise in the development of competitive markets in energy, while assuring system integrity and protecting shareholder value.

### D. Specific Guidance for Physical Gas Transactions

No Employee shall execute prohibited buy-sell transactions. A prohibited buy-sell transaction ("Buy-Sell"): RRI purchase gas from an entity at a receipt point on RRI's firm interstate pipeline capacity ("Buy"), and for the same day or period, RRI sells an equivalent quantity of gas to the same entity on RRI's firm interstate pipeline capacity ("Sell").



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Physical Gas Pipeline Capacity ownership by any other entity other than RRI Energy must be approved by the SVP of Commercial Operations and the Chief Compliance Officer or his or her designee.

Exceptions to this policy are as follows:

1. At the time of the Buy/Sell, RRI does not hold firm interstate pipeline capacity for the entire path between the Buy and Sell during the entire term of the transaction.
2. The Buys and Sells are not prearranged because they are made through the InterContinental Exchange ("ICE"), other similar platforms, including brokers where buyers and sellers are anonymous.
3. The Buy and Sell is made at the same trade location (i.e., same delivery point, hub or zone location), and no transportation cost is involved.
4. Capacity release is not a feasible alternative because Reliant used all its firm pipeline capacity for other transactions.

### Interpretation and Waivers.

The Wholesale Best Practices cannot identify every Transaction that may raise concerns. Employees must be alert to avoid any situation that may cast doubt on the validity or competitive arms-length nature of their transactions. If an Employee has a question about whether a Transaction or some aspect of a Transaction is prohibited or restricted under the Wholesale Best Practices, that person must promptly consult with and obtain prior approval from their superior and/or the relevant Vice President who in turn shall confer with the appropriate members of the Ethics and Compliance and Legal Services Departments.

### III. Reporting Principles

- A. Responsibility for Reporting.** RRI's applicable data from purchases and sales of natural gas and electricity will be reported to index developer(s) by Risk Control. Risk Control is independent of the Asset Commercialization function, which executes purchase and sale transactions of natural gas and electricity. Non-Risk Control employees should not, under any circumstances, communicate with index developer(s), directly or indirectly, regarding data from purchases and sales of natural gas and electricity. Employees shall communicate data from purchases and sales of natural gas and electricity to RRI's Risk Control accurately and completely.
- B. Accuracy of Data Reported.** Risk Control will provide accurate and complete data from purchases and sales of natural gas and electricity to index developers, and shall not knowingly submit false or misleading information to or omit material information from communications with any index developer.
- C. No Affiliate Transactions Reporting.** Risk Control will not report sales of energy products between or among RRI affiliates to index developers.
- D. Requirement to Report All Transactions.** Subject to the terms of an appropriate confidentiality agreement with the index developer, Risk Control will report the applicable data consisting of (a) the fixed price; (b) volume; (c) buy/sell indicator; (d) delivery/receipt location; (e) transaction date; and (f) term for each non-index based or natural gas basis, bilateral, arm's-length transaction for the purchase and sale of natural gas and electricity between non-affiliated companies in all physical (cash) markets and all delivery



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periods at all trading locations. Such reporting shall exclude financial hedges, financial transactions, or swaps or exchanges of gas or electricity. RRI does not intend to report counterparty name at this time.

- E. Error Resolution Process.** Risk Control will correct any errors identified in the applicable data provided as soon as practicable in cooperation and consistent with the error resolution process agreed to with the index developer, including adhering to the agreed upon process and timeline for submitting corrections and for responding to inquiries from the index developer.
- F. Data Retention.** Risk Control will retain all relevant data relating to the purchase and sale of natural gas and electricity reported to index developers for five (5) years.
- G. Independent Audit.** An auditor (internal or external) independent of the Risk Control and Asset Commercialization function will review the implementation of and adherence to the data gathering and submission process established by RRI at least once a year. The results of the audit procedure will be made available, upon request, to any index developer to whom RRI reports applicable data. RRI will permit any index developer to which data is submitted to recommend changes to improve the accuracy and timeliness of data reporting.

*END*