



# ENTERPRISE RISK MANAGEMENT GOVERNANCE POLICY

Effective Date: November 18, 2022

## POLICY AT A GLANCE

PEC's Enterprise Risk Management ("ERM") Program has been established to improve the likelihood of achieving strategic and business objectives, and to eliminate or reduce the impact of unplanned events on PEC. All employees have a role to play in the ERM Program, which means understanding the risks facing PEC, assessing exposure, and taking action to effectively respond to preserve and maximize value for the Members. This ERM Governance Policy establishes the parameters for the ERM Program.

## RESPONSIBILITY FOR THE ERM PROGRAM



### Board of Directors

Establish PEC's Risk Tolerance based on identified Impact limits.



### Executive Leadership - ERM Committee

Guide and oversee implementation of the ERM Program, develop PEC's Risk Profile, and approve Risk Response strategies and mitigation plans.



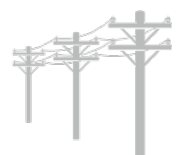
### ERM Program Lead

Coordinate and implement activities of the ERM Program.



### Risk Owners

Responsible for developing and implementing specific treatment plans for Risks and for updating the ERM Committee on the Risk Response.



## 1. PURPOSE

Pedernales Electric Cooperative (“PEC” or “Cooperative”) establishes the Enterprise Risk Management (“ERM”) Program to improve the likelihood of achieving strategic and business objectives and to eliminate or reduce the impact of unplanned events at PEC. The purpose of the ERM Governance Policy (“Policy”) is to establish guidelines for implementation and ongoing improvement of PEC’s ERM Program.

All employees play a role in the ERM Program, which means understanding the Risks facing the Cooperative, assessing exposure, and taking action to effectively respond to preserve and maximize value for the Members.

## 2. SCOPE

This Policy applies to all employees.

## 3. POLICY AND IMPLEMENTATION

The primary oversight and implementation participants of the ERM Program are the ERM Committee, ERM Program Lead, and Risk Owners.

### 3.1. ERM Program

3.1.1. The ERM Program standardizes the process of identifying, assessing, mitigating, and managing all Risks across PEC.

3.1.2. The objectives of the ERM Program are to:

3.1.2.1. Instill and maintain a Risk aware and Risk intelligent culture that encourages proactive versus reactive management.

3.1.2.2. Ensure PEC follows a consistent methodology and criteria for Risk identification, assessment, mitigation, and management.

3.1.2.3. Provide aggregated and relevant reporting on Risk exposures to PEC’s Board of Directors and a variety of Stakeholders to make informed and timely risk-based decisions and plans.

3.1.2.4. Integrate and align ERM into PEC policies and processes (e.g., safety, regulatory, finance, project management, power supply).

3.1.2.5. Minimize losses by uncovering sources of Risk and making them visible to Stakeholders.

3.1.3. The ERM Program is responsible for:

3.1.3.1. Identifying Risks inherent to PEC and the control processes with respect to such Risks.

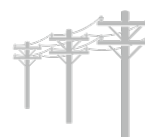
3.1.3.2. Evaluating other sources of Risks related to financial, strategic, operational, compliance, or any others that may arise.

3.1.3.3. Determining PEC’s Risk Responses.

3.1.3.4. Managing and monitoring PEC’s Risks.

### 3.2. ERM Committee

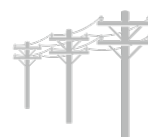
3.2.1. The ERM Committee is the governing and oversight body of PEC’s ERM Program.



- 3.2.2.** The ERM Committee is responsible for setting ERM Program procedures, assessing Risk Responses, monitoring, and reporting to PEC's Board of Directors and staff.
- 3.2.3.** The ERM Committee is comprised of the Executive Leadership Team. The Chief Executive Officer is the Chair.
- 3.2.4.** The ERM Committee has the authority to:
  - 3.2.4.1.** Assign roles and responsibilities as they relate to ERM.
  - 3.2.4.2.** Delegate any roles to other employees of the Cooperative, as appropriate.
  - 3.2.4.3.** Approve changes to the ERM Program.
- 3.2.5.** The responsibilities of the ERM Committee are to:
  - 3.2.5.1.** Set, approve, and amend the ERM Program.
  - 3.2.5.2.** Guide and oversee implementation of the ERM Program.
  - 3.2.5.3.** Evaluate PEC's overall Risks in the context of meeting short-term and long-term business and strategic objectives.
  - 3.2.5.4.** Develop the PEC Risk Profile.
  - 3.2.5.5.** Approve the assessment criteria, Risk assessments and interactions, and prioritization of identified Risks.
  - 3.2.5.6.** Approve Risk Response strategies and mitigation plans.
  - 3.2.5.7.** Oversee the performance of Risk Management and Risk Response plans as implemented by the corresponding Risk Owners.
  - 3.2.5.8.** Oversee and direct the development and maintenance of PEC's Risk Register.
  - 3.2.5.9.** Guide integration of ERM with other business planning and management activities.
  - 3.2.5.10.** Review audit reports of PEC's ERM Program and monitor improvements and corrective actions.
  - 3.2.5.11.** Ensure a thorough understanding of Risks and Risk Responses.
  - 3.2.5.12.** Ensure the ERM Program Lead and Risk Owners have the necessary resources to fulfill their duties.
- 3.2.6.** ERM Committee Meetings will be held at a minimum on a quarterly basis or as may otherwise be called by the Chair to address Risks.
- 3.2.7.** The ERM Committee shall prepare a report and present to the PEC Board of Directors on an annual basis, and shall include the PEC Risk Register and Risk Profile.
- 3.2.8.** At least once a year the ERM Committee shall review the effectiveness of the PEC ERM Program and report the results and any recommended Policy or program changes to the PEC Board of Directors. As needed, the ERM Committee shall report any emerging Risks or changes to PEC's Risk Profile to the PEC Board of Directors.

### **3.3. ERM Program Lead**

- 3.3.1.** The ERM Program Lead shall administer this Policy and report to the ERM Committee for implementation of the ERM Program.



**3.3.2.** The ERM Committee relies on the ERM Program Lead to coordinate the ongoing implementation of PEC's ERM Program.

**3.3.3.** The ERM Program Lead has the authority to:

**3.3.3.1.** Coordinate all ERM activities.

**3.3.3.2.** Develop and implement an integrated Risk Management framework, including methodology and tools.

**3.3.3.3.** Determine appropriate timing and communication of Risk information.

### **3.4. Risk Owners**

**3.4.1.** The Risk Owners collect, consolidate, and analyze threat and opportunity related data from various inputs for their assigned Risks.

**3.4.2.** The Risk Owners have the authority to:

**3.4.2.1.** Delegate and assign responsibilities within the corresponding business units or departments, if necessary.

**3.4.2.2.** Recommend Risk Responses to the ERM Program Lead subject to review by the ERM Committee.

**3.4.2.3.** Implement approved Risk Response strategies.

**3.4.3.** Meetings of Risk Owners with the ERM Program Lead will be held at a minimum on a quarterly basis or as otherwise called by the ERM Program Lead, as necessary.

### **3.5. Risk Types and Categorization**

**3.5.1.** PEC's Risk Profile consists of both threats and opportunities and includes both internal and external sources.

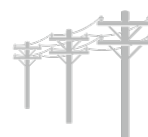
**3.5.2.** For reporting and analysis purposes, Risks will be organized into Risk Types. These groupings may change at the discretion of the ERM Committee to accommodate new or emerging Risks as well as to include pertinent Risk information. More detailed sub-categorization of Risk may occur to efficiently and consistently compare Risks across the business.

### **3.6. Risk Profile and Risk Tolerance**

**3.6.1.** The PEC Board of Directors shall establish PEC's Risk Tolerance. The Risk Profile is determined by the Risk Tolerance of the Cooperative.

**3.6.2.** The ERM Committee shall develop PEC's Risk Profile according to PEC's Risk Tolerances and by implementing the objectives established in PEC's strategic plan, business plan, key performance indicators, and PEC Board policies. In addition, the Impact and Likelihood shall be used to define Risk Tolerance. These are subject to modification by the ERM Committee.

**3.6.3.** For guidance on maintaining PEC's Risk Tolerance the following Impact limits shall apply. Any Risk identified, assessed, and determined by the ERM Committee to exceed these Impact limits with a probability of occurrence greater than 50% shall be reported to the PEC Board of Directors along with a proposed plan for Risk Response:



- 3.6.3.1. Potential safety and/or personal health impact that results in significant injuries or fatalities to employees or third parties, such as the public, Members, or vendors.
- 3.6.3.2. Potential Member service impact that results in a direct impact to PEC Members through a loss or disruption of PEC's services to more than 5% of the Membership for more than a 24-hour period.
- 3.6.3.3. Potential financial loss greater than 5% of the total revenue as established in the current fiscal year approved budget or results in PEC not maintaining the minimum Debt Service Coverage ratio.
- 3.6.3.4. Potential events or conditions that constitute events of default or that, with the giving of any notice, the passage of time, or both, would be an event of default under PEC's financial covenants with its lenders.
- 3.6.3.5. Potential compliance impacts that could result in significant prosecution and fines, litigation including class actions, or incarceration of PEC employees.
- 3.6.3.6. Potential reputational impacts that result in long-term negative media coverage.
- 3.6.3.7. Potential employee staffing impacts that result in high turnover of staff and loss of critical positions, and discontinuity of service.

## 4. DEFINITIONS

- 4.1. **ERM** – Enterprise Risk Management, which is the PEC-wide process of planning, organizing, leading, and controlling the activities of the Cooperative in order to minimize the effects of Risk (financial, strategic, operational, compliance or otherwise) on the Cooperative.
- 4.2. **ERM Committee** – The PEC Executive Leadership Team who have primary oversight of the implementation of PEC's ERM Program.
- 4.3. **ERM Program** – The program, including this Policy and procedures to address Risk Management for the Cooperative.
- 4.4. **ERM Program Lead** – The participant primarily responsible to the ERM Committee for coordination of implementation activities for the ERM Program. The ERM Program Lead is designated by the ERM Committee.
- 4.5. **Impact** – The effect a Risk will have on the electric business, program, project, or Cooperative if it does occur.
- 4.6. **Likelihood** – The probability of an event occurring.
- 4.7. **Risk** – An uncertain event or condition that, if it occurs, presents a threat to the electric business, programs, projects, or Cooperative's objectives or presents an opportunity to address efficiency for the electric business, programs, projects, or Cooperative's objectives.
- 4.8. **Risk Management** – The process of systematically identifying, quantifying, treating, monitoring and reporting on critical Risks.
- 4.9. **Risk Owner** – Person responsible for developing and implementing the specific treatment plans for their department's Risks on the Risk Register and for updating the ERM Committee on the Risk Response.



- 4.10. Risk Profile** – The matrix for Risk Tolerance for the Cooperative.
- 4.11. Risk Register** – A repository containing the results of the qualitative risk analysis, quantitative risk analysis and risk response planning. The Risk Register details all identified threats and opportunities, including description, Risk Type, Risk Subtype, cause, probability of occurring, Impact(s), proposed Risk Responses, owners and current status.
- 4.12. Risk Response** – The establishment of steps or practices to optimize opportunities and minimize threats using a variety of strategies, including acceptance, avoidance, mitigation and transfer for threats/exploitations along with sharing, enhancing and accepting opportunities.
- 4.13. Risk Tolerance** – The amount of Risk the Cooperative is willing to undertake.
- 4.14. Risk Type** – A logical grouping of Risk Subtypes to facilitate aggregation, reporting, and analysis.
- 4.15. Stakeholder** – Any individual, group, organization that can affect, be affected by, or perceive itself to be affected by a Risk.

## 5. POLICY ENFORCEMENT

The Board shall enforce this Policy. Violations of this Policy may result in disciplinary or corrective action, up to and including, termination.

## 6. REFERENCES AND RELATED DOCUMENTS

[Authority and Responsibilities Policy](#)

[Budget Policy](#)

[Investment Policy](#)

[Power Supply and Energy Management Policy](#)

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| Date adopted:       | October 16, 2017   |
| Last reviewed:      | September 29, 2022   |
| Review frequency:   | Every 5 years  |
| Amendment dates:    | June 18, 2021, November 18, 2022   |
| Effective date:     | November 18, 2022  |
| Approver:           | Board of Directors   |
| Applies to:         | All PEC Employees  |
| Administrator:      | ERM Program Lead   |
| Superseding effect: | This Policy supersedes all previous policies and memoranda concerning the subject matter. Only the Approver may authorize exceptions to this Policy. |

