

# **ENTERPRISE RISK MANAGEMENT (ERM) GOVERNANCE POLICY PEDERNALES ELECTRIC COOPERATIVE, INC.**

## **1. Purpose:**

- 1.1. Pedernales Electric Cooperative ("PEC") is committed to delivering low-cost, reliable and safe energy solutions for the benefit of our members. In order to improve the likelihood of achieving strategic and business objectives and to eliminate or reduce the impact of unplanned events PEC, through this ERM Governance Policy establishes PEC's Enterprise Risk Management ("ERM") Program.
- 1.2. This ERM Governance Policy establishes guidelines for implementation and ongoing improvement of an ERM Program for PEC.
- 1.3. All employees have a role to play in the ERM Program. This involvement entails understanding the risks facing the organization, assessing exposure, and taking action to effectively respond in order to preserve and maximize value for the members.

## **2. Scope:**

- 2.1. This Policy applies to all employees.
- 2.2. The objectives of the ERM Program are the following:
  - 2.2.1. Instill and maintain a risk aware and risk intelligent culture that encourages proactive versus reactive management;
  - 2.2.2. Ensure PEC follows a consistent methodology and criteria for risk identification, assessment, mitigation, and management;
  - 2.2.3. 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;
  - 2.2.4. Integrate and align ERM into PEC policies and processes (e.g., safety, regulatory, finance, project management, power supply); and
  - 2.2.5. Minimize losses by uncovering sources of risk and making them visible to Stakeholders
- 2.3. The governing and oversight body of PEC's ERM Program is the ERM Committee.

## **3. Definitions:**

- 3.1. ERM - means Enterprise Risk Management. It is the PEC-wide process of planning, organizing, leading, and controlling the activities of the organization in order to minimize the effects of risk (financial, strategic, operational, compliance or otherwise) on the organization.
- 3.2. ERM Committee - means the PEC participants who have primary oversight of the implementation of PEC's ERM Program.
- 3.3. ERM Program - means the program, including the policy and procedures to address Risk Management for the organization to be established.
- 3.4. ERM Program Lead - means the participant primarily responsible to the ERM Committee for coordination of implementation activities of the ERM Program. At PEC, the ERM Program Lead is designated by the ERM Committee.
- 3.5. Impact - The effect a Risk will have on the electric business, program, project, or organization if it does occur.
- 3.6. Likelihood - The probability of an event occurring.
- 3.7. Risk - An uncertain event or condition that, if it occurs, presents a threat to the electric business, programs, projects, or organization's objectives or presents an opportunity to

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- address efficiency for the electric business, programs, projects, or organization's objectives.
- 3.8. Risk Management - The process of systematically identifying, quantifying, treating, monitoring and reporting on critical Risks.
  - 3.9. Risk Owner - Person responsible for developing and implementing the specific treatment plans for their department or business unit's Risks on the Risk Register and for updating the ERM Committee on the Risk Response.
  - 3.10. Risk Profile - The matrix for Risk Tolerance for the organization.
  - 3.11. 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.
  - 3.12. 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.
  - 3.13. Risk Subtype - A logical sub grouping within a risk type to facilitate aggregation, reporting and analysis.
  - 3.14. Risk Subtype Owner - A central person(s) that collects, consolidates, and analyzes overall risk and risk subtype data from applicable department or business units.
  - 3.15. Risk Tolerance - The amount of Risk an organization is willing to undertake.
  - 3.16. Risk Type - A logical grouping of Risk Subtypes to facilitate aggregation, reporting, and analysis.
  - 3.17. Stakeholder - Any individual, group, organization that can affect, be affected by, or perceive itself to be affected by a Risk.

#### **4. Policy Statement and Implementation:**

- 4.1. The primary oversight and implementation participants of the ERM Program are the ERM Committee, ERM Program Lead, Risk Owners, and Risk Subtype Owners.
- 4.2. The ERM Program is responsible for:
  - 4.2.1. Identifying Risks inherent to PEC and the control processes with respect to such Risks.
  - 4.2.2. Evaluating other unidentified sources of Risks related to financial, strategic, operational, compliance or otherwise, as well as any others that may arise.
  - 4.2.3. Determining PEC's its Risk Responses.
  - 4.2.4. Managing and monitoring PEC's Risks.
- 4.3. PEC's ERM Program standardizes the process of identifying, assessing, mitigating and managing all Risks across PEC.
- 4.4. ERM Committee:
  - 4.4.1. The main role of the ERM Committee is to oversee the implementation of PEC's ERM Program. The ERM Committee is responsible for setting ERM Program procedures, assessing Risk Response, monitoring, and reporting to PEC's Board and staff.
  - 4.4.2. The ERM Committee is comprised of the following individuals:
    - 4.4.2.1. Chief Executive Officer who is also the Chair;

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- 4.4.2.2. Chief Financial Officer;
- 4.4.2.3. General Counsel; and
- 4.4.2.4. Two members of the Executive Leadership Team (selected for one-year term).
- 4.4.3. Authority:
  - 4.4.3.1. The ERM Committee has the authority to:
    - 4.4.3.1.1. Assign roles and responsibilities as they relate to ERM;
    - 4.4.3.1.2. Delegate any roles to other members of the organization, as appropriate;
    - 4.4.3.1.3. Approve changes to the ERM Program
- 4.4.4. Roles and Responsibilities:
  - 4.4.4.1. The responsibilities of the ERM Committee are the following:
    - 4.4.4.1.1. Set, approve, and amend the ERM Program;
    - 4.4.4.1.2. Guide and oversee implementation of the ERM Program;
    - 4.4.4.1.3. Evaluate PEC's overall Risks in the context of meeting short-term and long-term business and strategic objectives;
    - 4.4.4.1.4. Develop the PEC Risk Profile;
    - 4.4.4.1.5. Approve the assessment criteria, risk assessment and interactions, and risk prioritization of identified Risks;
    - 4.4.4.1.6. Approve Risk Response strategies and mitigation plans;
    - 4.4.4.1.7. Oversee the performance of Risk Management and Risk Response plans as implemented by the corresponding Risk Owners;
    - 4.4.4.1.8. Oversee and direct the development and maintenance of PEC's Risk Register;
    - 4.4.4.1.9. Guide integration of ERM with other business planning and management activities;
    - 4.4.4.1.10. Review audit reports of PEC's ERM Program and monitor improvements and/or corrective actions;
    - 4.4.4.1.11. Ensure a thorough understanding of Risks and Risk Responses;
    - 4.4.4.1.12. Ensure the ERM Program Lead and Risk Owners have the necessary resources to fulfill its duties.
  - 4.4.4.2. ERM Committee Meetings:  
Meetings will be held at a minimum on a quarterly basis or as may otherwise be called by the Chair to address Risks.
  - 4.4.4.3. ERM Committee Reporting:  
The ERM Committee shall prepare a risk report and present to the PEC Board of Directors on a quarterly basis and shall include the PEC Risk Register and Risk Profile. 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.
- 4.5. ERM Program Lead:
  - 4.5.1. The ERM Committee relies on the ERM Program Lead to coordinate the ongoing implementation of PEC's ERM Program.
  - 4.5.2. The ERM Program Lead has the authority to:
    - 4.5.2.1. Coordinate all ERM activities;

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- 4.5.2.2. Develop and implement an integrated Risk Management framework, including methodology and tools; and
- 4.5.2.3. Determine appropriate timing and communication of risk information.
- 4.6. Risk Owners:
  - 4.6.1. The Risk Owners collect, consolidate, and analyze threat and opportunity related data from various inputs for their assigned Risks and Risk Subtypes.
  - 4.6.2. The Risk Owners have the authority to:
    - 4.6.2.1. Delegate and assign responsibilities to Risk Subtype Owners within the corresponding business units or departments, if necessary;
    - 4.6.2.2. Recommend Risk Responses to the ERM Program Lead subject to review by the ERM Committee; and
    - 4.6.2.3. Implement approved Risk Response strategies.
  - 4.6.3. Risk Owner Meetings:
    - 4.6.3.1. 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.

### **5. Procedure Responsibilities:**

- 5.1. The ERM Program Lead shall administer this Policy and reports to the ERM Committee for implementation of the ERM Program.
- 5.2. Risk Types and Categorization:
  - 5.2.1. PEC's Risk Profile consists of both threats and opportunities and includes both internal and external sources.
  - 5.2.2. For reporting and analysis purposes, Risks will be organized into Risk Types and Risk Subtypes. 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 within each Risk Subtype to efficiently and consistently compare Risks across the business.
- 5.3. Risk Profile; Risk Tolerance:
  - 5.3.1. The PEC Board of Directors shall establish PEC's Risk Tolerance. The Risk Profile is determined by the Risk Tolerance of the organization.
  - 5.3.2. 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, Likelihood, Vulnerability and Speed of Onset Scales shall be used to define Risk Tolerance. These scales are subject to modification by the ERM Committee.
  - 5.3.3. 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:
    - 5.3.3.1. Potential safety and/or personal health impact that results in significant injuries or fatalities to employees or third parties, such as the public, customers or vendors.

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- 5.3.3.2. 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.
- 5.3.3.3. 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.
- 5.3.3.4. 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.
- 5.3.3.5. Potential compliance impacts that could result significant prosecution and fines, litigation including class actions, or incarceration of PEC employees.
- 5.3.3.6. Potential reputational impacts that result in long-term negative media coverage.
- 5.3.3.7. Potential employee staffing impacts that result in high turnover of staff and loss of critical positions, and discontinuity of service.

### **6. Enforcement:**

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

### **7. Superseding Effect:**

- 7.1. This Policy supersedes all previous policies and memoranda concerning the subject matter. Only the Approver may authorize exceptions to this policy.

### **8. References and Related Documents:**

- 8.1. Authority and Responsibilities Policy
- 8.2. Budget Policy
- 8.3. Investment Policy
- 8.4. Power Supply and Energy Management Policy

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Policy Title:	Enterprise Risk Management (ERM) Governance Policy
Review Frequency	Annually
Last Reviewed:	
Date Adopted:	October 16, 2017
Effective Date:	October 16, 2017
Amendment Dates:	
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.