



Enterprise Risk Management Update

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Enterprise Risk Management (ERM) Policy

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.

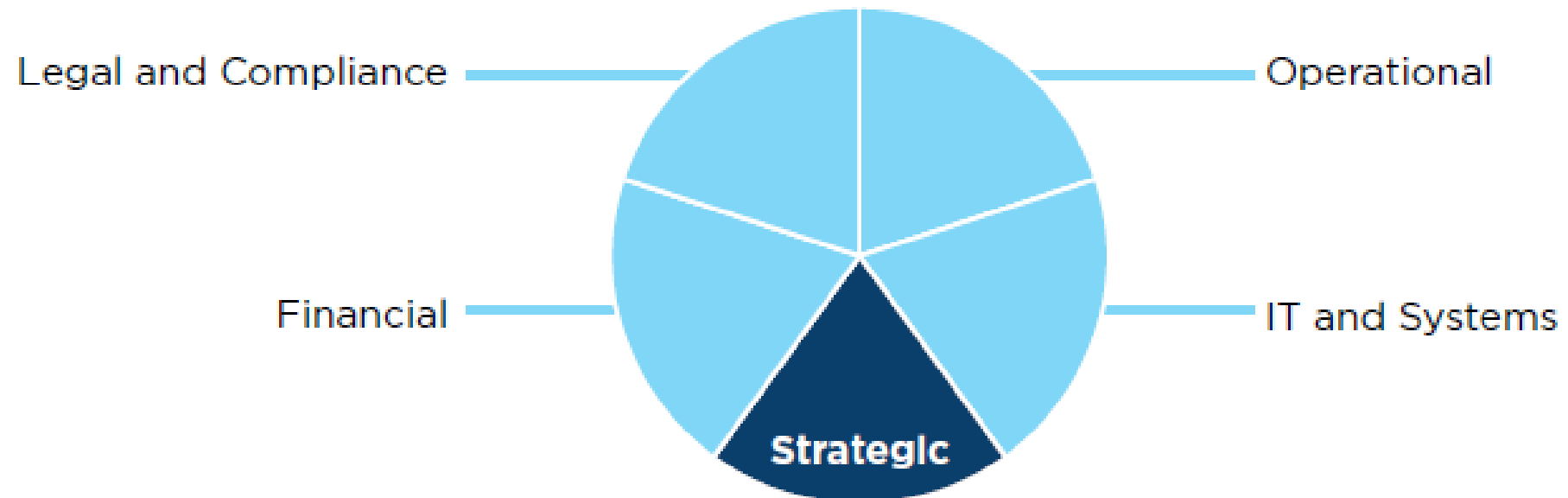
3. Definitions:

- 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 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.
- 3.4. 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



ERM Life Cycle

Enterprise Risk Categories



Q1 Accomplishments

- Key stakeholders identified
- PEC ERM life cycle and risk categories adopted
- Training plan developed
- Selection of CEB/Gartner as partner

April – May

ERM Workshop and risk identification exercise for key stakeholders

June – July

Enterprise Risk Assessment developed and completed

August - October

Results of assessment shared with the Board of Directors

Identified risks analyzed, prioritized, and assigned ownership

Risk interviews conducted with risk owners to identify mitigation planning needs

Next Steps



2018 ERM Board Update Schedule

April 19

July 16

October 18

January 2019



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