



# Enterprise Risk Management – F&A Committee Training

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Enterprise Risk Management

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# Discussion Topics

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-  ERM Board Policy and Value
-  ERM Roles and Responsibilities
-  Risk Assessment Process Overview
-  2024 High-Priority Risks
-  Key Takeaways

# ERM Board Policy

The vision for Enterprise Risk Management (ERM) is to maintain an industry-leading program that identifies, assesses, and monitors significant risks to achieving LIPA's purpose and vision and the Board's objectives as stated in each policy.

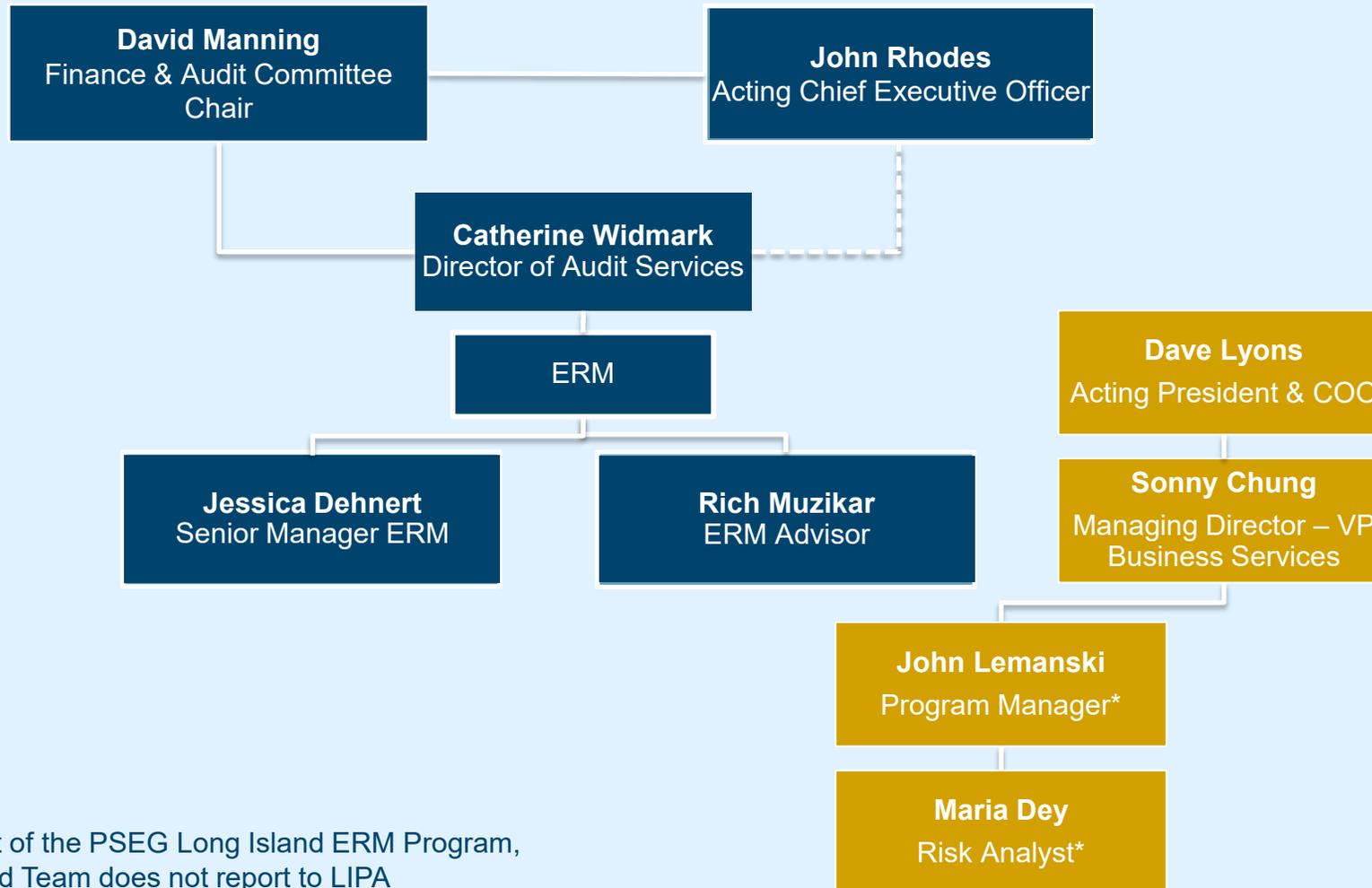
## Policy Provisions:

- Strategically manage or oversee risks to reduce the probability of significant outages, financial loss, health and safety events, reputational harm, and failure to achieve the Board's policy objectives.
- Create an Enterprise Risk Management Committee (ERMC), which Committee members will be appointed at the discretion of LIPA's Chief Executive Officer. LIPA's service provider will maintain a Risk Management Committee to oversee those risks and report to LIPA's ERMC.
- Perform an evaluation of its most significant risks and corresponding management activities.

Additionally, there will be an annual report to the Finance and Audit Committee of the Board on:

- Compliance with the policy, including the results of a biennial review of the maturity of the program compared to industry best practices.
- Review of the significant risks to LIPA's purpose and vision.

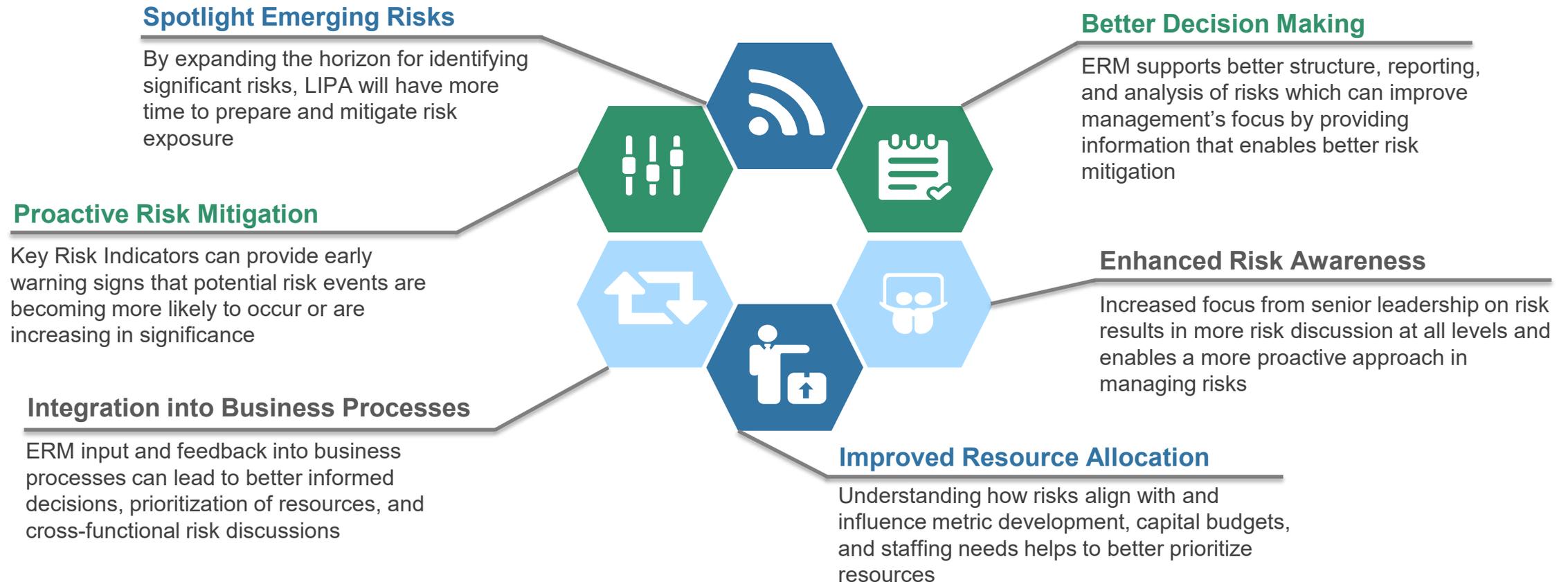
# ERM Structure – LIPA & PSEG Long Island



\*LIPA ERM has oversight of the PSEG Long Island ERM Program, but the PSEG Long Island Team does not report to LIPA

# Enterprise Risk Management

ERM is a comprehensive and structured approach to risk identification, assessment, response, and monitoring. Below are some benefits that a mature ERM Program can provide.



# The cost of risk management failures

Failure to adequately address risks can lead to business disruption, harm to customers, stakeholders and employees, financial losses, and damage to the organization's reputation.

## Wildfires – Pacific Gas & Electric Company

**Cause:** Lack of adequate vegetation management paired with aging utility equipment failure that resulted in catastrophic wildfires, fatalities, damaged homes, and bankruptcy.

**Cost:** PG&E paid \$117M to settle lawsuits related to the 2017 and 2018 fires in addition to \$4M in fines. Costs continue to rise to harden/underground the system and impact customer perception.



## Unauthorized Use of Customer Data – Wells Fargo

**Cause:** Pressured by demanding executives and unimpeded by assurance functions, employees opened millions of fake accounts in the names of customers.

**Cost:** Wells Fargo was forced to return \$2.6 million in ill-gotten fees and pay \$186 million in fines to the government.



## Performance Fraud - Volkswagen

**Cause:** With management's approval, VW falsified emissions data in over 11 million cars worldwide to appear compliant with regulations.

**Cost:** VW spent \$7.3 billion to compensate consumers and agreed to plead guilty to the emissions scandal, paying an additional \$4.3 billion in penalties. Six VW executives were charged with crimes.



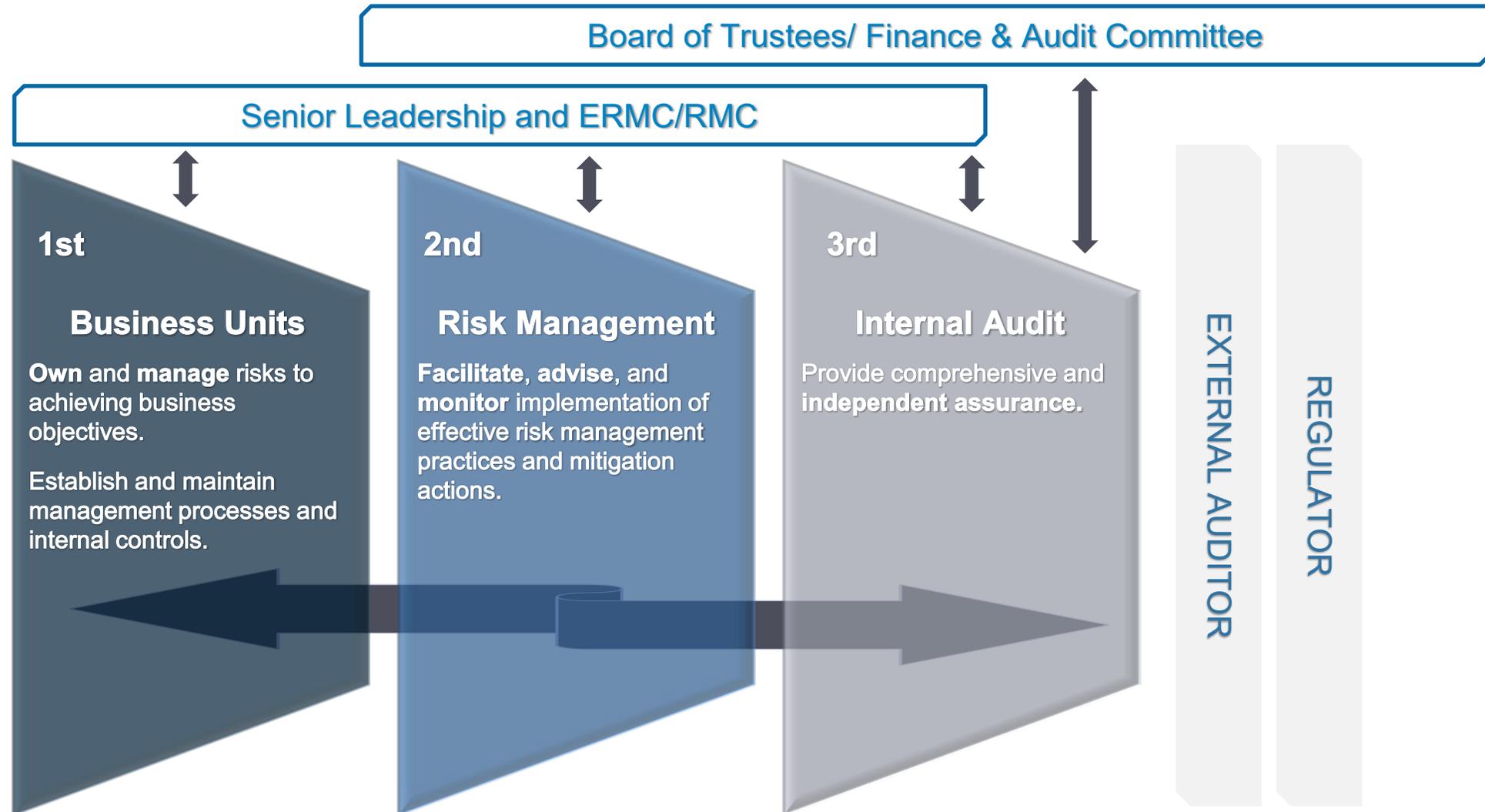
## Dike Breach at Coal Storage Pond – Tennessee Valley Authority

**Cause:** Failed dike containing coal byproduct, the coal ash was too wet, stacked too high and placed upon a poor foundation. There were two earlier leaks elsewhere on site – clear warning signs.

**Cost:** The Tennessee Department of Environment and Conservation hit TVA with an \$11.5M fine. To clean up the spill and restore the area, TVA spent over \$1B.



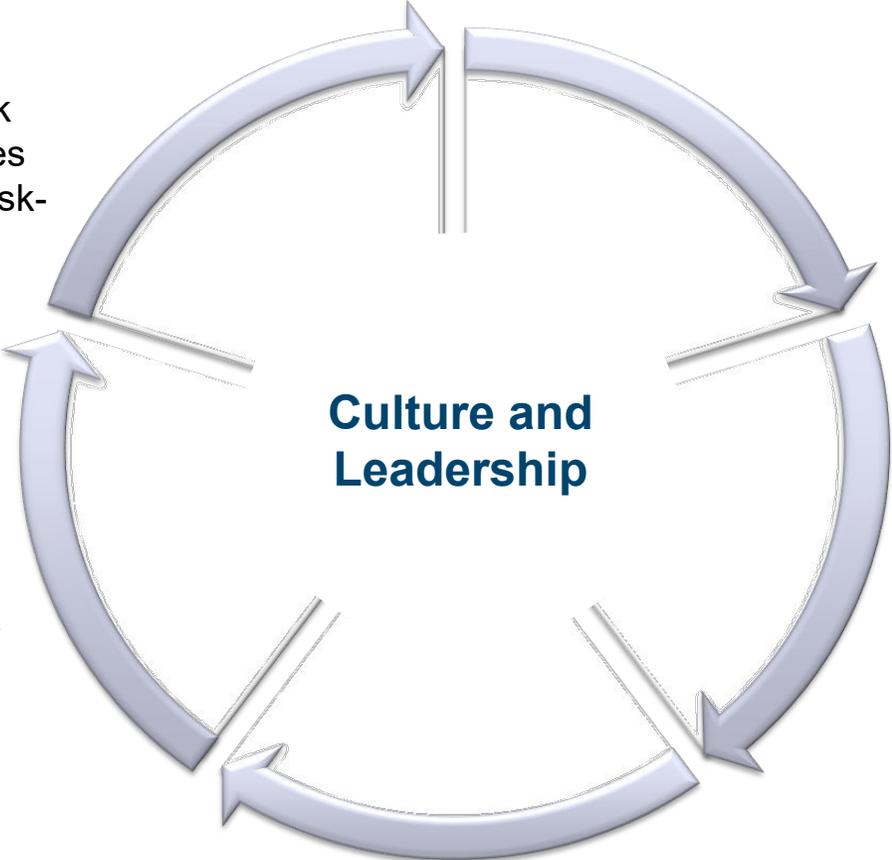
# Three lines of defense for managing risk



# ERM Process Overview

**Risk Reporting**  
Communication of risk information that enables management to make risk-informed decisions.

**Risk Identification**  
Process to identify risks affecting the organization.



**Risk Assessment**  
Quantitative and qualitative methods utilized to assess the magnitude of risk exposures.

**Risk Monitoring**  
Process for monitoring changes in the probability and/or impact of a risk.

**Risk Response & Mitigation**  
Process and documentation of identifying and implementing actions to minimize the probability and/or impact of a risk.



# ERM Program Comparison – LIPA and PSEG Long Island

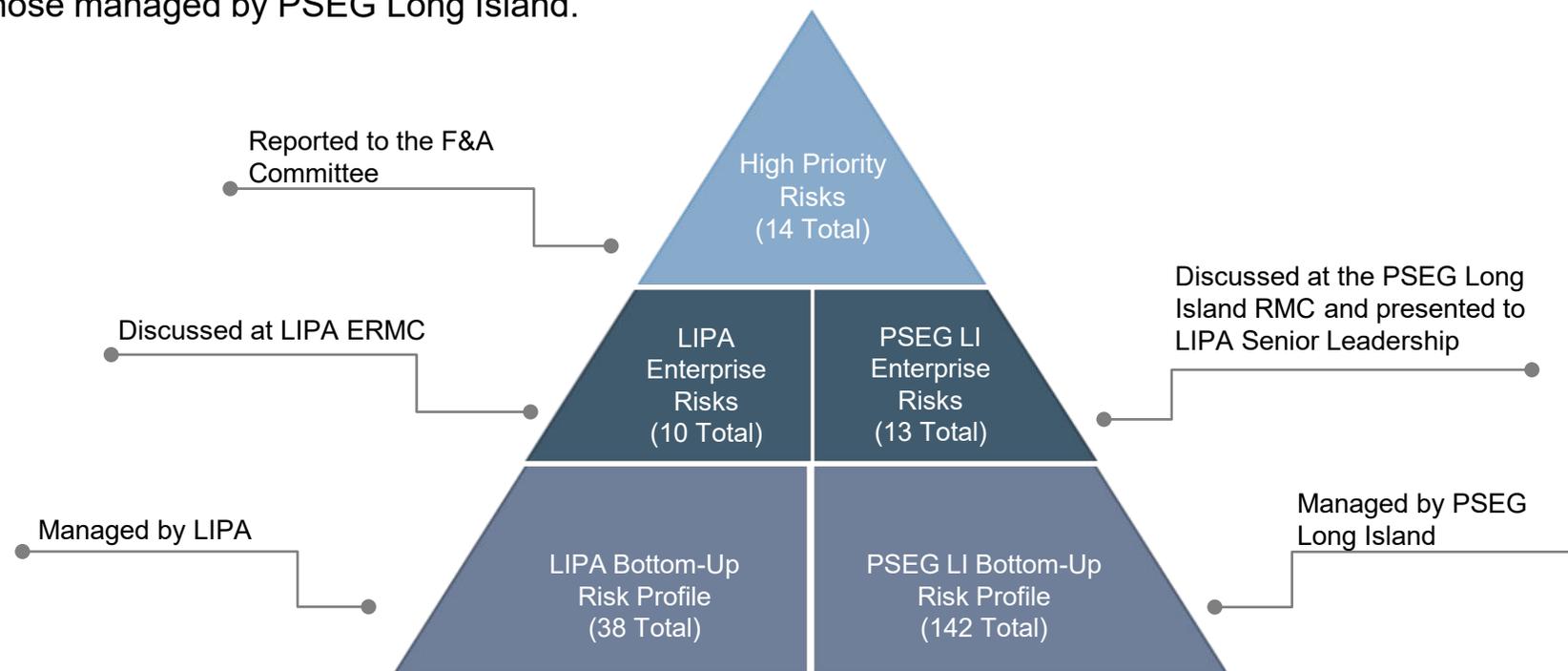
	LIPA	PSEG Long Island
Facilitates the Risk Assessment Process to Identify and Manage Risks	✓	✓
Enterprise Risk Management Committee Discussions	✓	
Risk Management Committee Discussions		✓
Provides Annual Report to LIPA – Service Provider Managed Risks		✓
Oversight of the PSEG Long Island ERM Program	✓	
Oversight of PSEG Long Island Risks	✓	
Reports to the F&A Committee on Significant Risks and Program Activities	✓	



# 2024 Summary of Risks

**High-priority risks** can significantly impede **both** LIPA and PSEG Long Island’s ability to achieve their respective goals.

- Both LIPA and PSEG Long Island undergo a formal risk assessment process to develop their risk profiles. LIPA identifies and manages its risks; PSEG Long Island identifies its risks and provides LIPA with an in-depth annual report detailing its most significant risks and their mitigation actions.
- There are 14 risks that have been deemed high-priority and represent the most significant risks to both LIPA and PSEG Long Island. These risks, along with their mitigation strategies and actions, are reviewed and approved by senior management. LIPA owns all risks, including those managed by PSEG Long Island.



# 2024 High Priority Risks

Category	Risk
Reliability	<b>Major Storm</b> – Damage to infrastructure, delayed restoration, OT system outage, and/or ineffective communication could result in increased costs and negative reputation.
	<b>Physical Security Attack</b> - Substation security and/or the control centers are compromised and could result in reduced reliability and/or a safety incident.
	<b>Outdated Primary Transmission Control Center</b> - Current control center condition could create increased system vulnerabilities, especially during high activity events.
	<b>Safety</b> - Employees/contractors not following procedures, equipment failure, or lack of adequate training could result in an injury/death.
	<b>Asset Management</b> - Aging substation and transmission equipment with minimal inventory for replacement could result in a significant outage and negative reputation.
	<b>Inability to Meet Load Requirements</b> - Multiple cable failures, generator(s), and/or inadequate transmission capacity could result in the inability to meet demand.
Technology	<b>Cyber Event</b> - Unauthorized access to IT and/or T&D systems could result in decreased operational abilities.
	<b>Breach of Personal Identifiable Information</b> - Internal or 3rd party mass breach of PII could result in loss of sensitive data, a critical system, and potential fraud.
	<b>Failure of Critical Business System</b> - A major outage or performance failure of a critical operating technology or business system, results in extended disruption to operations or business processes, damage to systems and/or loss of data.
Regulatory & Rates	<b>CLCPA Project Execution</b> - Suboptimal planning and/or project execution to achieve LIPA’s portion of the New York State climate goals could result in insufficient resource allocations, reduced system reliability, increased customer costs, and negative public perception.
	<b>TOD Rate Implementation</b> - Negative customer perception of Time-of-Day rates results in greater than forecasted opt-outs, lower than anticipated customer and system benefits, and negative reputational impact.
People & Reputation	<b>Talent Management</b> - Difficulty attracting/retaining individuals with the right knowledge, skillsets, and experience may impact the ability to achieve our purpose and objectives.
	<b>Call Center</b> - Difficulty attracting and retaining call center personnel paired with increased call volume can result in longer hold times, decreased ability to effectively and efficiently interact with customers, and negative public perception.
	<b>Reputation</b> - Negative media coverage could alter customer perception, system operations, and access to affordable capital.

# Example format of risk reporting

Risk	Trend	Risk Mitigation	Board Policy & Communications	Metrics and PIPs
<p><b>Major Storm</b> - Damage to infrastructure (system hardening/resiliency), delayed restoration, and ineffective communication with customers could result in increased costs and negative reputation <i>Managed by - PSEG Long Island</i></p>		<ul style="list-style-type: none"> <li>• Implementation of activities laid out in the 90-Day Storm Preparation Plan</li> <li>• Ongoing storm hardening initiatives: Power-On, Trim to Sky, Hazard Tree, Auto-Sectionalizing Units Viper Switches (ASUVs), evaluation of eight load pockets, etc.</li> <li>• Storm hardening program targeting 18% reduction compared to Isaias through 2025 and on track</li> <li>• Continue identification of mutual aid including wire watchers, LV crews, and damage assessors</li> <li>• Emergency storm response trainings</li> <li>• Integration of OMS with AMI has improved data gathering and situational awareness during storm events</li> <li>• Reevaluating the use of drone technology for assessing damage after storms</li> </ul>	<p><b>Policy</b></p> <ul style="list-style-type: none"> <li>• T&amp;D Operations</li> </ul> <p><b>Communications</b></p> <ul style="list-style-type: none"> <li>• May Summer Prep &amp; Emergency Restoration Plan</li> <li>• June Storm Hardening &amp; Resiliency Update</li> <li>• Quarterly ITF Reports &amp; PIP updates</li> <li>• June Final OMS report</li> <li>• Annual board report</li> <li>• Quarterly metric reports</li> </ul>	<ul style="list-style-type: none"> <li>• T&amp;D-24 Vegetation Management – Cycle Tree Trim w/ Vegetation Intelligence</li> <li>• T&amp;D-25 Vegetation Management – Trim to Sky Circuits</li> <li>• T&amp;D-26 Vegetation Management – Hazard Tree Removal</li> <li>• T&amp;D-27 Storm Hardening - Overhead Hardening</li> <li>• T&amp;D-28 Storm Hardening - Underground Hardening</li> <li>• T&amp;D-29 T&amp;D System Enhancements</li> <li>• T&amp;D-30 Storm Hardening Work Plan - ACRV Commissioning Program</li> <li>• T&amp;D-31 Storm Hardening Work Plan - LT5H (ASUV) Program</li> <li>• T&amp;D-42 Estimated Time of Restoration Process Enhancements</li> <li>• T&amp;D-48 Program Effectiveness - Storm Hardening</li> </ul>
<p><b>Physical Security Attack</b> - Substation security and/or the control centers are compromised and could result in reduced reliability and/or a safety incident <i>Managed by - PSEG Long Island</i></p>		<ul style="list-style-type: none"> <li>• Conduct security vulnerability inspections and penetration tests at all critical sites</li> <li>• Substation security upgrades are either in design phase, planned or underway for all 10 critical substations</li> <li>• In-progress: AMAG upgrade for access control and video management</li> <li>• Increased focus and enrollment regarding insider threat trainings</li> </ul>	<p><b>Policy</b></p> <ul style="list-style-type: none"> <li>• Physical security included in the T&amp;D Operations policy</li> </ul> <p><b>Communications</b></p> <ul style="list-style-type: none"> <li>• Board review to occur post-Security audit</li> <li>• Annual board report</li> <li>• Quarterly metric reports</li> </ul>	<ul style="list-style-type: none"> <li>• T&amp;D-44 Regulatory Compliance</li> <li>• T&amp;D-45 Physical Security</li> </ul>



# Key takeaways

- The Board has established a **policy** to maintain an **industry-leading ERM program**.
- **LIPA maintains and manages a risk profile** that is reflective mainly of financial, and talent-related risks.
- **PSEG Long Island manages** the most significant operating risks, with **LIPA oversight**.
- The **highest priority risks** of LIPA and PSEG Long Island are reported annually to the **Finance and Audit Committee**.
- **Risk discussions** are facilitated throughout the year by **subject matter experts** outside of formal ERM presentations to the Board (i.e., summer preparation, cyber, safety, etc.).
- The next ERM presentation to the Finance and Audit Committee will focus on select high-priority risks; planned for the fourth quarter.

# Questions?

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