



Enterprise Risk Management Discussion

November 17, 2021

Topics for Discussion



2021 Risk Summary



ERM Program Recommendations

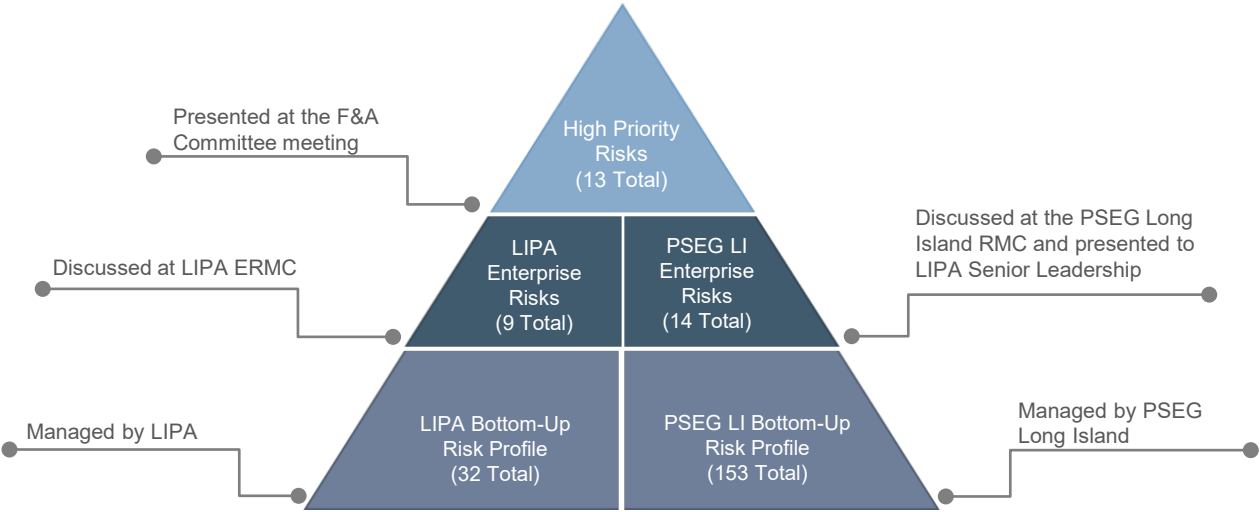


Next Steps


2021 Summary of Risks & Criteria

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

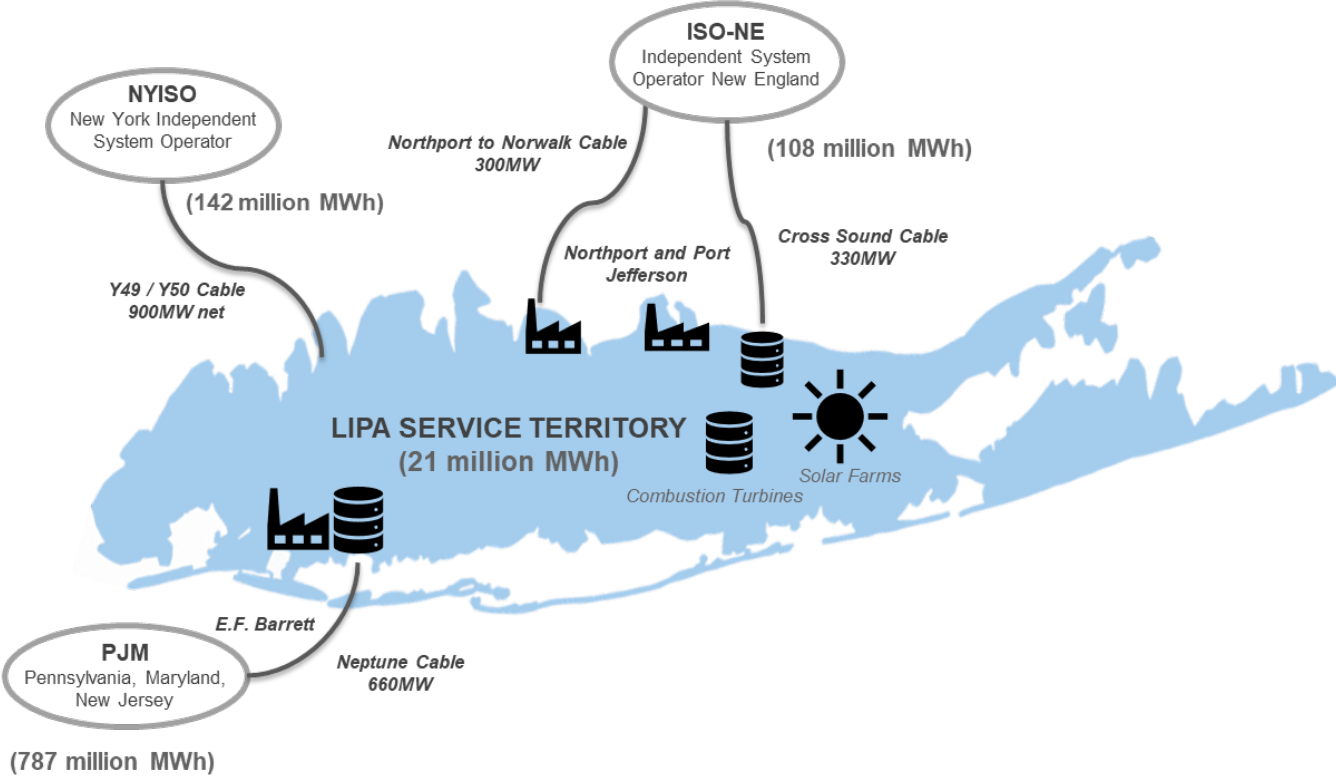
- There are 13 risks that have been deemed high-priority and represent the most significant risks to the organization; these risks are reviewed with senior management
- **Risk Trending** is defined as a year-over-year comparison of the state of the risk which is determined by considering new mitigation actions, changes to the environment of the risk, or event(s) that have occurred since the risk was last reviewed. Risks are rated as: **Increasing**, **Decreasing**, or **Stable**



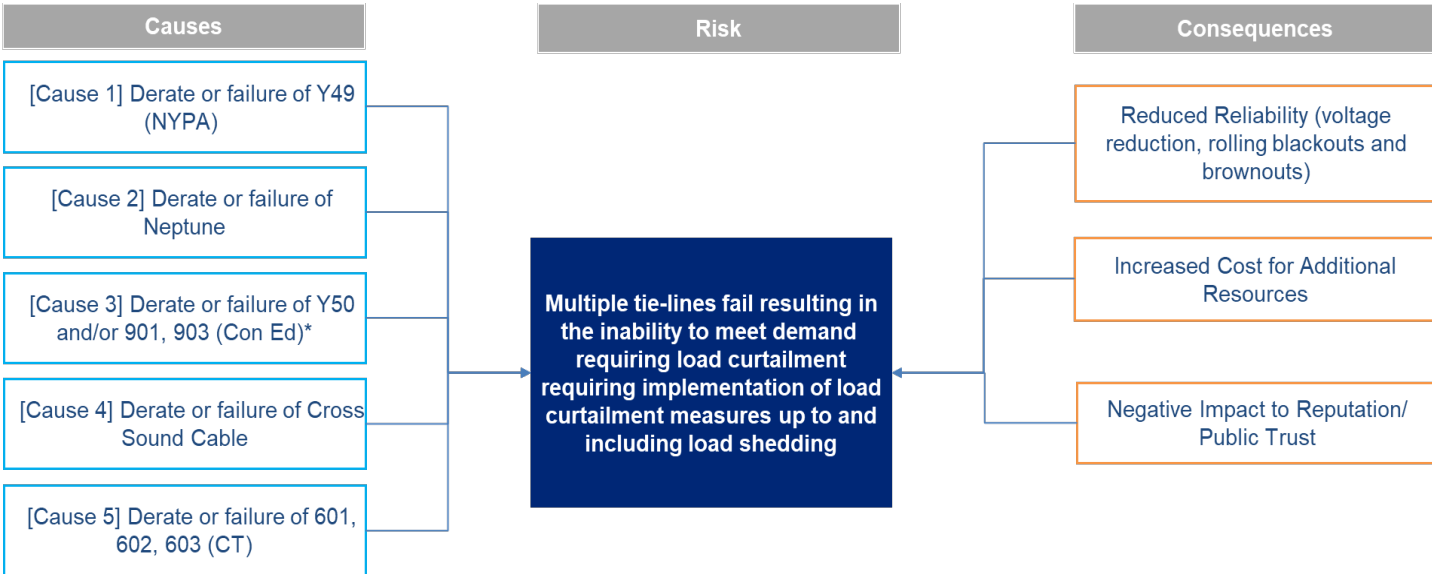
2021 High-Priority Risk for Discussion – Loss of Multiple Tie-lines

Risk	Trend	Risk Mitigation	Communications
<p>Loss of multiple tie-lines - Multiple cable failures could result in the inability to meet demand and require implementation of load curtailment measures up to and including load shedding</p> <p><i>Managed by - PSEG Long Island</i></p>		<ul style="list-style-type: none"> • Evaluated asset condition for all interties, as a result developed plans to reconductor Y49 • Improved spare strategy by increasing the number of spare transformers • Increased outreach to cable owners to provide increased transparency of annual equipment maintenance plans • Proposed improvements to the Cathodic Protection Program to better prioritize maintenance • Added a drill for load shedding and reviewed procedures 	<ul style="list-style-type: none"> • Regular intertie outage communications to BOT, June presentation, and pertinent news articles • Board approval of NYPA power supply contract to mitigate risk

Long Island Regional Electric Grid



2021 High-Priority Risk for Discussion – Loss of Multiple Tie-lines (*cont'd*)



*Note: 901 & 903 typically work in conjunction with the power imported on the Y50 intertie, and export power to Con-Ed

ERM Board Policy Compliance

- Over the course of 2021, there have been notable improvements to the ERM Program through implementation of the eight board recommendations approved in December 2020; detail on the progress of each of the eight recommendations provided on the following slide
- Improvements to the program will continue to be identified and implemented to ensure best-practices are being integrated; two metrics have been agreed to for 2022 related to making improvements to the annual report and development of Key Risk Indicators to monitor changes in select high-priority risks

ERM Recommendations for PSEG Long Island – Update

Recommendation	Status
(01) Provide for LIPA SMEs and ERM team participation in all risk discussions	Complete
(02) Create a culture of accountability by designating management-level owners for each risk mitigation strategy and related action plans	Complete
(03) Establish a joint SharePoint site so that risk information, can be accessed in real-time by LIPA SMEs	Complete
(04) Produce a comprehensive annual risk report by June 1 st	Complete
(05) Perform deep dive analysis on high-priority risks	<i>In-process, Major Storm – Communications and Cyber Security to be completed by 12/31/21; Four risk reviews in 2022</i>
(06) Develop a risk correlation matrix to better understand end-to-end impacts and better inform needed mitigation strategies	<i>In-process, Framework developed; proof of concept tested; PSEGLI to utilize LIPA’s framework in 2022</i>
(07) Provide risk training to all SMEs participating in the annual risk assessment process	<i>Training deck in review; formal workshops to be held Q4’21</i>
(08) Develop a process so that if a high-risk event or condition is identified it will trigger a risk review that is elevated to senior management	<i>Process developed; requires LIPA oversight to ensure adoption and utilization</i>

Next Steps

- Q1'22 LIPA ERM and SMEs will oversee PSEG Long Island's ERM risk assessment process
- Over the course of 2022, LIPA ERM will focus on:
 - Guiding PSEG Long Island in making improvements to their annual report
 - Overseeing the development and implementation of Key Risk Indicators for certain risks
 - Implementing best practices as identified through peer-to-peer benchmarking efforts

FOR CONSIDERATION

November 17, 2021

TO: The Finance and Audit Committee

FROM: Thomas Falcone

SUBJECT: Recommendation to Approve the Annual Report on the Board's Policy on Enterprise Risk Management

Requested Action

The Finance and Audit Committee (the "Committee") of the Board of Trustees (the "Board") of the Long Island Power Authority ("LIPA") is requested to adopt a resolution recommending that the Board: (i) find that LIPA has complied with the Board Policy on Enterprise Risk Management (the "ERM Policy" or "Policy"); and (ii) approve the annual report for the Policy, which Resolution is attached hereto as **Exhibit "A"**.

Background - Board Policy on Enterprise Risk Management

By Resolution No. 1351, dated March 29, 2017, the Board adopted the ERM Policy, focusing on the identification, assessment, management, and mitigation of risks. The Policy was last reviewed and amended by the Board by Resolution No. 1572, dated December 16, 2020.

The Finance and Audit Committee ("F&A Committee"), in its Charter, was delegated the responsibility for reviewing LIPA's practices relating to ERM. LIPA's Service Provider, PSEG Long Island, participates in the implementation of LIPA's ERM Program.

Specifically, the Policy provides that "the Chief Executive Officer or his or her designee will report annually to the F&A Committee of the Board on the Policy, including: a review of the significant risks to LIPA's mission; and compliance with the key provisions of the Policy."

Compliance with the Policy

Performance for 2021 has been consistent with the Policy. LIPA and PSEG Long Island have maintained an ERM program designed to evaluate significant risks and corresponding mitigation activities facing the business. This Report covers ERM activities since the Board's December 2020 review to the present. While the Service Provider's performance with respect to matters identified by the Isaias Task Force has improved, several issues remain a work in progress. LIPA Staff recommends that, for the reasons set forth below, the Board find that LIPA has substantially complied with the objectives of the Policy for the period since the last annual report.

The Policy states: "Under the direction of LIPA's Chief Executive Officer, LIPA and its Service Provider shall maintain an Enterprise Risk Management Program with the following key provisions":

"An Enterprise Risk Management Committee consisting of at least three LIPA staff appointed by the Chief Executive Officer, two of whom must be drawn from LIPA's senior management, to oversee the processes and procedures of the Program."

- LIPA has an active Enterprise Risk Management Committee (“ERMC”) that reviews the progress and findings of the ERM Program, including discussions of the most significant risks facing LIPA and its Service Provider. Over the last ten months, the ERMC has met eight times to discuss the various components of the Program, including the review of LIPA and the Service Provider’s risk assessments and associated mitigation activities. In addition, it also reviewed the Service Provider’s Annual Report and deep-dive analysis provided on select high-priority risks. The ERMC was also briefed on the status of the eight Board approved ERM performance recommendations and emerging risk trends.
- Currently, there are ten members on the Committee, including the CEO, CFO, CAO, CIO, General Counsel, and other LIPA Staff at the Senior Vice President, Vice President, and Director levels.
- The ERMC maintains an ERM Procedures Manual, which includes the integration of risk information into decision-making within Strategic Planning, Internal Audit, and other areas of the business. The ERM Procedures Manual also calls for maintaining a list of emerging risks and recognizes the Service Provider’s Risk Management Committee (“RMC”), which are responsible for managing their identified risks.

“An evaluation of the most significant risks facing the LIPA and its Service Provider, and corresponding mitigation activities, reported to senior management of LIPA and its Service Provider for review and evaluation on an annual basis, with ongoing monitoring activity between reviews.”

- Since the last Board report, the ERM teams have worked with Subject-Matter Experts (“SMEs”) to develop deep-dive analyses on selected significant risks of LIPA and PSEG Long Island to understand root causes, mitigations in place, and actions that could be taken to further mitigate these risks. The risk analyses were presented to LIPA’s ERMC or other special-focus committees and covered the following risks: inter-tie failures, climate regulation, customer communications during a major storm, and cyber security.
- Annually, the F&A Committee receives an update on the ERM Program highlighting the significant risks and mitigation actions facing LIPA and its Service Provider concurrent with this annual report.

“A review of the LIPA’s insurance and other forms of coverage against insurable risks, including the availability and economics of such coverage, performed each year.”

Insurance:

- The Amended & Restated Operations Services Agreement (“AR OSA”) requires LIPA to provide written notification to its Service Provider regarding the renewal of required policies, desired changes in coverages, and any requests to investigate other types of coverages. The LIPA notification is sent each December.
- During 2021, LIPA risk management and LIPA’s Insurance Advisor provided oversight of the coverages placed by PSEG Long Island as required by the AR OSA to assure prudent and economic coverage placed to protect the interest of LIPA’s bondholders and customer-owners. The policies included:
 - Excess 3rd Party General Liability

- Property Insurance (all risks, excludes wires and poles) includes U.S. Property Terrorism
- Cyber Insurance - LIPA named insured on PSEG Long Island's Cyber Insurance
- Nuclear Electric Replacement for Nine Mile Point, Unit 2
- LIPA maintains its own insurance policies, including Director and Officer liability, premises general liability, and property insurance, as well as cyber event insurance and employee practices liability insurance.

“LIPA will conduct a biennial review of the maturity of the Program compared to industry best practices, which will be provided to the Board of Trustees, senior management, and LIPA's Internal Audit staff.”

- The next ERM maturity assessment is scheduled for July 2022 based on the Board approved biennial review cadence. LIPA's Internal Audit department will receive a copy of the 2022 ERM maturity assessment and diagnostic report prepared by a third-party vendor, which measures the current maturity of the LIPA ERM Program and comparison to an industry benchmark.

Annual Review of the Policy

LIPA Staff has completed its annual review of the Policy and has no suggested amendments at this time.

Recommended Changes to the ERM Program considering Isaias Task Force Reports

The Isaias Task Force's 90-Day Report identified numerous examples where PSEG Long Island lacked transparency in its dealings with LIPA. This lack of transparency has impacted the effectiveness of LIPA's ERM Program, including inaccurate and, at times, overly confident rankings by its Service Provider of certain key risks and poor implementation of mitigation strategies. To address these issues, LIPA Staff recommended changes to the PSEG Long Island ERM Program approved by the Board in December 2020. The Board has received implementation plans for each of these recommendations and quarterly updates on the status of their implementation. Below is a status as of November 2021:

- Include LIPA SMEs and ERM team members in all risk discussions: *Completed;*
- Designate management-level owners for each risk mitigation strategy and related management action plan: *Completed;*
- Establish a joint SharePoint site so that risk information, including risk assessment, deep-dive analysis, mitigation strategies, and current status of implementation plans, can be accessed in real-time by LIPA SMEs: *Completed;*
- Produce an annual ERM report, providing a complete aggregation of all risks, effectiveness of mitigation actions for high-priority risks, areas of weakness/need improvement, and general observations, by June 1 of each year: *Completed;*
- Perform deep-dive analysis on high-priority risks, including what mitigation actions have been implemented, those underway, planned, and areas of deficiency: *In-process, the last presentation on cyber security is planned for November/December of 2021;*

- Develop a risk correlation matrix to better understand end-to-end impacts and the risks that are interrelated (especially for major storm) to better inform needed mitigation strategies: *In-process, PSEG Long Island to utilize LIPA's correlation framework on a selected risk in 2022;*
- Provide risk training to all SMEs participating in the annual risk assessment process so that the expectations and value of the process are better understood by the participants: *In-process, training materials are being reviewed and sessions to be scheduled;* and
- Develop a process so that if a high-risk event or condition is identified by LIPA, or its Service Provider or personnel (e.g., when OMS was failing days before the storm), such event or condition (i) immediately triggers a risk review by the LIPA and its Service Provider's ERM teams and (ii) is elevated to both LIPA and PSEG Long Island management. *Process developed; requires ongoing review to ensure adoption and utilization.*

Recommendation

Based upon the foregoing, I recommend approval of the above requested action by adoption of a resolution in the form attached hereto.

Attachments

Exhibit "A" Resolution

RESOLUTION RECOMMENDING APPROVAL OF THE ANNUAL REPORT ON THE BOARD POLICY ON ENTERPRISE RISK MANAGEMENT

WHEREAS, the Enterprise Risk Management Policy (the “Policy”) was originally approved by the Board of Trustees by Resolution No. 1351, dated March 29, 2017; and

WHEREAS, the Policy was last reviewed and amended by Resolution No. 1572, dated December 16, 2020; and

WHEREAS, the Finance and Audit Committee (the “Committee”) of the Board of Trustees of the Long Island Power Authority (“LIPA”) has conducted an annual review of the Policy and recommends that the Board find that the Policy has been complied with.

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the Committee hereby recommends that the Board find that LIPA has substantially complied with the Policy for the period since the last annual review and approve the annual report.

Dated: November 17, 2021