ENTERPRISE RISK MANAGEMENT – F&A COMMITTEE DISCUSSION

September 27, 2023

TOPICS FOR DISCUSSION

01 ⊟ **ERM Process Overview**

02 ❙❙❙ **2023 Risk Summary**

03 📊 **ERM Board Policy Review and Approval**

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

Culture and Leadership

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

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

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

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Risk Identification

Work with subject matter experts within each department to identify the risks that could impact their objectives.
For example: *A major event could cause damage to infrastructure, delayed restoration, and ineffective communication with customers which could result in increased costs and negative reputation*

Risk Assessment

CRITERIA FOR EVALUATING RISKS				
Impact	**Impact Categories**	**Likelihood**	**Velocity**	**Outlook**
5 - Severe	Financial	5 - Almost Certain	High	Increasing
4 - Major	Reliability	4 - Likely	Medium	Decreasing
3 - Moderate	Reputational	3 - Possible	Low	Stable
2 - Minor	Regulatory, Legal, & Compliance	2 - Unlikely		
1 - Incidental	Environmental, Health, & Safety	1 - Highly Unlikely		

Risk Exposure = Impact (x) Likelihood

Work with subject matter experts to evaluate the likelihood, impact, velocity, and outlook of the risk
For example: Major Event risk has a severe (5) rating in multiple impact categories and is likely (4) to occur, so the risk exposure is 5x4=20

Risk Response & Mitigation

Work with subject matter experts to determine and develop mitigation actions to manage the risk.

Risk Monitoring

Develop a cadence and quantitative measures that monitor risk trending by working with subject matters in each department

Risk Reporting

Report on high-priority risks periodically to the Enterprise Risk Management Committee and quarterly to the Board of Trustees. Additionally, select risks have deep-dive analysis performed and presented to leadership which includes both LIPA and PSEG Long Island.

ERM ROLES AND RESPONSIBILITIES

Board of Trustees
- Sets ERM Board policy
- Provides oversight of the ERM process

CEO
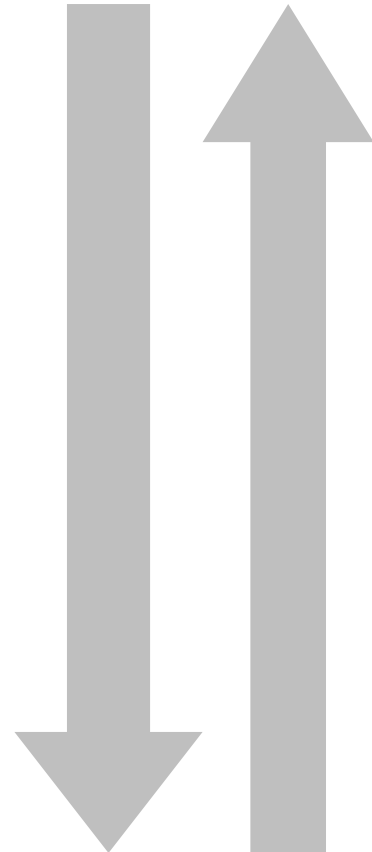- Reviews and approves overall risk portfolios

Senior Leadership/VPs
- Reviews and approves department portfolios
- Reviews and aggregates enterprise risks at ERMC meetings
- Prioritizes resources to reduce risk

Directors
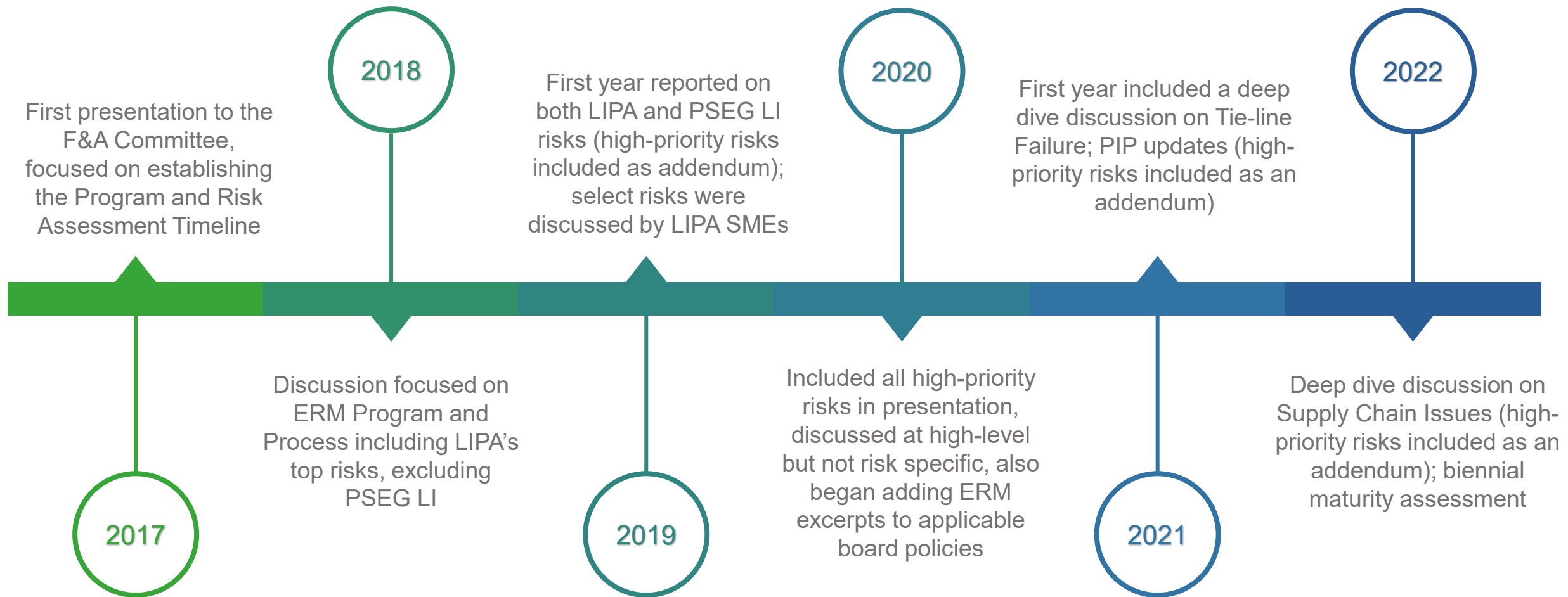- Responsible for managing department risks
- Identifies areas for improvement

Front-line Managers
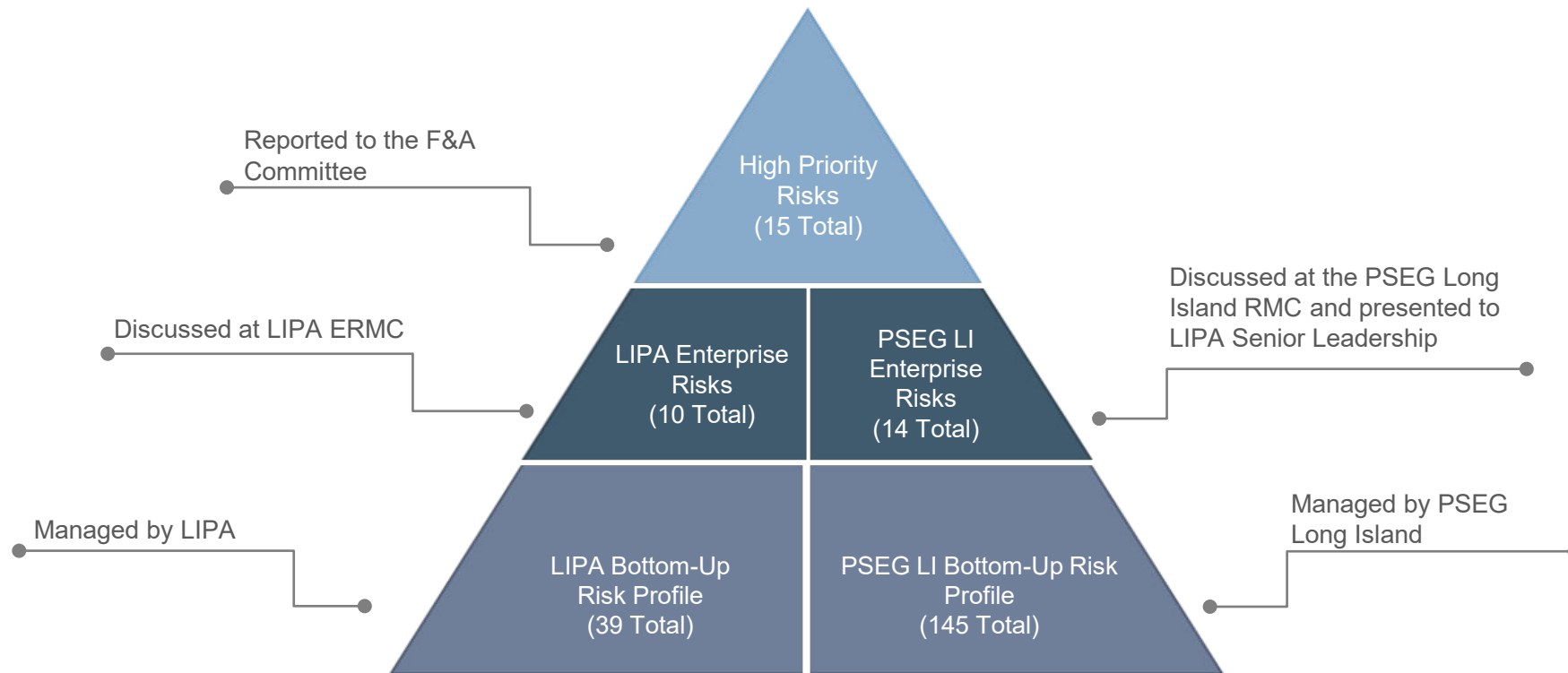- Identifies and manages risks in day-to-day operations

Roles and responsibilities are reflective of each the LIPA and PSEG LI ERM Programs from Senior Leadership down. LIPA has the additional responsibility of overseeing the PSEG LI Risk Profile and Process

2018

2020

2022

First presentation to the F&A Committee, focused on establishing the Program and Risk Assessment Timeline

First year reported on both LIPA and PSEG LI risks (high-priority risks included as addendum); select risks were discussed by LIPA SMEs

First year included a deep dive discussion on Tie-line Failure; PIP updates (high-priority risks included as an addendum)

2017

Discussion focused on ERM Program and Process including LIPA's top risks, excluding PSEG LI

2019

Included all high-priority risks in presentation, discussed at high-level but not risk specific, also began adding ERM excerpts to applicable board policies

2021

Deep dive discussion on Supply Chain Issues (high-priority risks included as an addendum); biennial maturity assessment

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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; PSEG Long Island provides LIPA an in-depth annual report detailing their most significant risks and their mitigation actions

- There are 15 risks that have been deemed high-priority and represent the most significant risks to the organization; these risks along with their mitigation strategies and actions are reviewed and approved by senior management

Reported to the F&A Committee

Discussed at LIPA ERMC

Managed by LIPA

High Priority Risks
(15 Total)

LIPA Enterprise Risks
(10 Total)

PSEG LI Enterprise Risks
(14 Total)

LIPA Bottom-Up Risk Profile
(39 Total)

PSEG LI Bottom-Up Risk Profile
(145 Total)

Discussed at the PSEG Long Island RMC and presented to LIPA Senior Leadership

Managed by PSEG Long Island

2023 LIPA AND PSEG LONG ISLAND HIGH-PRIORITY RISKS

Category	Risk
Reliability	**Major Event** - Damage to infrastructure, delayed restoration, and ineffective communication with customers could result in increased costs and negative reputation
	Physical Security Attack - Substation security and/or the control centers are compromised and could result in reduced reliability and/or a safety incident
	Outdated Primary Transmission Control Center - Current control center condition could create increased system vulnerabilities, especially during high activity events
	Safety - Employees/contractors not following procedures, equipment failure, or lack of adequate training could result in an injury/death
	Loss of multiple tie-lines - Multiple cable failures could result in the inability to meet demand and require load curtailment measures, including load shedding
Technology	**Cyber Event** - Unauthorized access to IT and/or T&D systems could result in decreased operational abilities
	Breach of Personal Identifiable Information - Internal or 3rd party mass breach of PII could result in loss of sensitive data, a critical system, and potential fraud
	Failure of Critical Business System - A major failure of availability or performance 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	**Regulatory/Legislative** - Modifications to regulations and/or legislations could result in potential changes to the business model, operational changes, and/or an increased cost of service
	Business Model - The outsourced business model could result in suboptimal value and increased cost to customers
	Business Model Uncertainty - Uncertainty regarding the future business model results in enterprise-wide challenges related to attracting and retaining talent, competing priorities impact the ability to perform necessary work, and maintaining a positive working culture at LIPA and a productive working relationship with the Service Provider
	Rate Design - Existing rate design may not reflect changing customer usage patterns/expectations or provide pricing signals and could result in economic inefficiencies and negative public perception
People & Reputation	**Talent Management** - Difficulty attracting/retaining individuals with the right knowledge, skillsets, and experience may impact the ability to achieve our purpose and objectives
	Call Center - 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
	Reputation - Negative media coverage could alter customer perception, system operations, and access to affordable capital

Risks are grouped by category and not ranked in order of prioritization

Risk	Trend	Risk Mitigation	Board Policy & Communications	Metrics and PIPs
Major Event - Damage to infrastructure (system hardening/resiliency), delayed restoration, and ineffective communication with customers could result in increased costs and negative reputation *Managed by - PSEG Long Island*	⬆ (red up arrow)	• Ongoing storm hardening initiatives: Power-On, Trim to Sky, Hazard Tree, Auto-Sectionalizing Units Viper Switches (ASUVs), evaluation of eight load pockets, etc. • Storm hardening program targeting 18% reduction compared to Isaias through 2025 and on track • Continue identification of mutual aid including wire watchers, LV crews, and damage assessors • Emergency storm response trainings • Integration of OMS with AMI has improved data gathering and situational awareness during storm events • Reevaluating the use of drone technology for assessing damage after storms	**Policy** • T&D Operations **Communications** • May Summer Prep & Emergency Restoration Plan • June Storm Hardening & Resiliency Update • Quarterly ITF Reports & PIP updates • June Final OMS report • Annual board report • Quarterly metric reports	• T&D-24 Vegetation Management – Cycle Tree Trim w/ Vegetation Intelligence • T&D-25 Vegetation Management – Trim to Sky Circuits • T&D-26 Vegetation Management – Hazard Tree Removal • T&D-27 Storm Hardening - Overhead Hardening • T&D-28 Storm Hardening - Underground Hardening • T&D-29 T&D System Enhancements • T&D-30 Storm Hardening Work Plan - ACRV Commissioning Program • T&D-31 Storm Hardening Work Plan - LT5H (ASUV) Program • T&D-42 Estimated Time of Restoration Process Enhancements • T&D-48 Program Effectiveness - Storm Hardening
Physical Security Attack - Substation security and/or the control centers are compromised and could result in reduced reliability and/or a safety incident *Managed by - PSEG Long Island*	⬆ (red up arrow)	• Conduct security vulnerability inspections and penetration tests at all critical sites • Substation security upgrades are either in design phase, planned or underway for all 10 critical substations • In-progress: AMAG upgrade for access control and video management • Increased focus and enrollment regarding insider threat trainings	**Policy** • Physical security included in the T&D Operations policy **Communications** • Board review to occur post-Security audit • Annual board report • Quarterly metric reports	• T&D-44 Regulatory Compliance • T&D-45 Physical Security

Risk	Trend	Risk Mitigation	Board Policy & Communications		Metrics and PIPs
Outdated Primary Transmission Control Center - Current control center condition could create increased system vulnerabilities, especially during high activity events *Managed by - PSEG Long Island*	⬆	• One candidate property has been identified and is awaiting design, permitting, and construction • Small board conversion to SCADA eliminated risk associated with evacuating Hicksville without data on physical board • Developed a strategic road map for the replacement of the PCC and ACC as well as an IT cutover plan	**Policy** • N/A **Communications** • Ongoing communications and status updates • Quarterly metric reports		• T&D-06 Primary and Alternative Transmission Control Center Replacement • Board adopted PIP in 2021 and revised in 2023
Safety - Employees/contractors not following procedures, equipment failure, or lack of adequate training could result in an injury/death *Managed by - PSEG Long Island*	⬆	• Continuously improve and integrate current safety and training programs including implementation of a documented safety management system • Continued focus on contractor safety, storm onboarding, and monitoring initiatives • Regular internal and external assessments and audits; EHS audit and AEGIS risk assessment planned for Q3 2023	**Policy** • Safety **Communications** • Annual board report • Quarterly metric reports		• T&D-13 Safety – Serious Injury Incident Rate (SIIR) • T&D-14 Safety – OSHA Recordable Incidence Rate • T&D-15 Safety – OSHA Days Away Rate
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 *Managed by - PSEG Long Island*	⬆	• Neptune transformer replacement put into service • NYPA Y49 Extension and Modernization project led to the replacement of the LI land portion • Improved spare strategy by increasing the number of spare transformers • Increased outreach to cable owners to provide increased transparency of annual equipment maintenance plans • Board approved capacity contract with NYPA Flynn plant on LI	**Policy** • N/A **Communications** • May Summer Prep report • Regular intertie outage communications to the Board of Trustees, and pertinent news articles		N/A

Risk	Trend	Risk Mitigation	Board Policy & Communications		Metrics and PIPs
Cyber Event - Unauthorized access to IT and/or T&D systems could result in decreased operational abilities *Managed by - LIPA & PSEG Long Island*	⬆ (red)	• Conduct quarterly internal and annual third-party vulnerability assessments, penetration testing of all information and operational technology systems, and promptly mitigate any identified vulnerabilities • Maintain a targeted level of maturity on the National Institute of Standards and Technology Cyber Security Framework (NIST CSF), as evaluated annually through an independent assessment • Continue to integrate security awareness and education into management culture • Perform annual drills that concentrate on a cyber attack and phishing	**Policy** • Information Technology and Cyber Security	**Communications** • Annual board report • Quarterly metric reports • IV&V of PSEGLI Cyber Security Default Metric	• IT-05 Project Performance - In-flight Projects • IT-08 Cyber Security Organization - Structure, Staffing and Capabilities Review
Breach of Personal Identifiable Information - Internal or 3rd party mass breach of PII could result in loss of sensitive data, a critical system, and potential fraud *Managed by - PSEG Long Island*	↔ (yellow)	• All employees and contractors are trained on the importance of protecting PII, receive Red Flag training, and data is shared on an *as needed* basis • Maintain the Employee Transaction Review Process to ensure CAS access is not misused • Phishing exercises are facilitated to reinforce training and provide increased awareness • Conduct 'Staying Cyber Safe for Employees' training helps users defend workplace and home data from malicious threats • Conduct an annual third-party risk assessment of vendors that hold sensitive information	**Policy** • Information Technology and Cyber Security **Communications** • Annual board report • Quarterly metric reports • IV&V of PSEGLI Cyber Security Default Metric		• IT-05 Project Performance - In-flight Projects

Risk	Trend	Risk Mitigation	Board Policy & Communications	Metrics and PIPs
Failure of Critical Business System - A major failure of availability or performance 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 *Managed by - PSEG Long Island*		• Established Technology Resiliency Metrics for 2022 with continuation in 2023. Activities include Business Continuity and Disaster recovery testing for business-critical processes and applications. • Added a dedicated resiliency manager to directly oversee technology resiliency activities • Hold and participate in various functional and tabletop exercises and conduct training on an annual basis to continuously improve processes and response to critical system failures	**Policy** • Information Technology and Cyber Security **Communications** • Quarterly metric reports	• IT-03 – System Resiliency
Reputation - Negative media coverage could alter customer perception, system operations, and access to affordable capital *Managed by - LIPA & PSEG Long Island*		• Employ clear and timely communication through all channels with customers, stakeholders, public officials and media on issues to ensure information is disseminated early and accurately • Increase customer awareness through the facilitation of public presentations, stakeholder meetings, quarterly advisory meetings, board meetings and hearings. Informational outreach materials are provided, as needed • LIPA has the right to review and approve PSEG LI's Emergency Response Plan which includes communications protocols • Monitor and manage vendor communications, marketing, and external affairs including policy positions, infrastructure projects and improvements, stakeholder communication and coordination, and government correspondence	**Policy** • N/A **Communications** • Quarterly metric reports • Frequent communication on stakeholder relations and media provide continuous feedback	• BS-19 (E&C-4) Reputation Management – Positive Media Sentiment • BS-20 (E&C-5) Reputation Management – Share of Voice • BS-21 (E&C-6) Social Media Engagement and Following PIPs: • Project - 4.09 Social Media Automation

Risk	Trend	Risk Mitigation	Board Policy & Communications	Metrics and PIPs
Talent Management - Difficulty attracting and retaining individuals with the necessary knowledge, skillsets and experience may impact our ability to timely achieve our purpose and objectives *Managed by: LIPA & PSEG Long Island*	⬆	• Offer flexible working arrangements (i.e., telecommuting and flexible work hours) • Utilize staff augmentation to make up for short term resource needs • Market and offer strong benefits package and competitive salary structure • Developed a policy on policies to help with knowledge retention, knowledge capture and memorializing key processes • Work with HR consultant to measure employee engagement and satisfaction and identify initiatives to address cultural issues • Maintain a succession plan to address turnover with the least possible impact to operations	**Policy** • Staffing and Employment **Communications** • Annual board report • Quarterly metric reports	• BS-05 Full Time Vacancy Rate
Call Center - 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 *Managed by: PSEG Long Island*	⬆	• Increased call center staff using temporary agents and onboarding new full-time personnel • Reduce repeat calls by implementing new credit card vendor and providing short-term debt forgiveness to decrease % of customers in collections • Performance management enhancements have improved by dedicating additional resources to provide "real time" monitoring of "longer than normal" calls & other anomalies, updating agent scorecards to align with drivers in partnership with IBEW, and creating back-up support for real time monitoring for supervisors	**Policy** • Customer Experience **Communications** • Regular updates via the 'Get Well Plan' discussions at each Board Meeting • Annual board report • Quarterly metric reports	• CS-02 JD Power - Residential • CS-03 JD Power - Business • CS-11 Contact Center Service Level with Live Agent Calls • CS-13 First Call Resolution

Risk	Trend	Risk Mitigation	Board Policy & Communications	Metrics and PIPs
Regulatory/Legislative - Modifications to regulations and/or legislation could result in potential changes to the business model, operational changes, and/or an increased cost of service *Managed by - LIPA & PSEG Long Island*	⬆	• Translate subject matter expertise into synchronized and persuasive policy positions • Identify high value opportunities to influence State and Federal policy to align with customer needs • Proactively engaging with media to increase awareness to stakeholders • Develop cost-effective implementation plans if/when new regulations are passed	**Policy** • Clean Energy and Power Supply **Communications** • Annual board report • Quarterly metric report • March LMI Heat Pump Update	• PS&CE-1 Complete Integrated Resource Plan • PS&CE-3 (CE-1) Energy Efficiency Plan Savings • PS&CE-5 (CE-3) Beneficial Electrification – Building Electrification • PS&CE-6 Electric Vehicle (EV) Make-Ready • PS&CE-11 Implementation of Utility 2.0 Projects
Business Model - The outsourced business model could result in suboptimal value and increased cost to customers *Managed by - LIPA*	⬆	• Participated in the LIPA Legislative Committee's review of business model with various documents and testimony at public hearings • Developed fact sheets to provide the pros and cons of different business models under consideration • Conducted an Options Analysis in April 2021 on improving the contract • Renegotiated operating service agreement that was placed in effect April 2022	**Policy** • LIPA's Purpose and Vision **Communications** • Quarterly metric reports • April 2021 Options Analysis • Business Model fact sheets • LIPA Legislative Committee testimony and reports	• All metrics and PIPs to help support efficient and effective vendor performance management

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Risk	Trend	Risk Mitigation	Board Policy & Communications	Metrics and PIPs
Business Model Uncertainty - Uncertainty regarding the future business model results in enterprise-wide challenges related to attracting and retaining talent, competing priorities impact the ability to perform necessary work, and maintaining a positive working culture at LIPA and a productive working relationship with the Service Provider *Managed by - LIPA*	⬆	• CEO has consistently updated LIPA Staff on the progress of the Legislative Committee review which will recommend a course of action to the State Legislature. While this creates a significant amount of uncertainty, LIPA is helping to mitigate this by preparing for different outcomes, including legislation and rebidding the operations service agreement	**Policy** • LIPA's Purpose and Vision • Policy on Staffing and Employment **Communications** • Annual board report • Quarterly metric reports • April 2021 Options Analysis • Business Model Fact Sheets • LIPA Legislative Committee testimony and reports	• All metrics and PIPs to help support efficient and effective vendor performance management
Rate Design - Existing rate design may not reflect changing customer usage patterns/expectations or provide pricing signals and could result in economic inefficiencies and negative public perception *Managed by - LIPA & PSEG Long Island*	⬆	• Focus on implementing rate designs that are adaptable to diverse customer end use behavior • Maintain strong relationships with, and actively educate stakeholders • Continue to monitor technological advancements and incorporate findings in rate design process • Implementing a time-of-day rate program that is specifically designed to address changing customer usage patterns and providing proper pricing signals. The rollout includes a pause to assess performance and is managed on multiple KPIs, including customer feedback. This program endeavors to lower peak demand during high usage times and will help save customers money	**Policy** • Customer Value, Affordability, and Rate Design **Communications** • Annual board report • March Time of Day Rollout Presentation • Quarterly TOD Board Update • Quarterly metric reports	• PS&CE-08 Transition to New "Standard" Time of Day Residential and Small Business Rates on an Opt-Out Basis

- As part of a larger review of LIPA's board policies, the ERM Policy was reviewed and streamlined by the Board of Trustees

- As noted in the June discussion, the Program has made significant improvements since its inception in 2017 and maintains a goal of continuous improvement to promote best in class practices

- One of the most current improvements is increasing the number of formal ERM risk discussions with the Board to provide greater insights into high-priority risks

- The Policy changes were discussed in the June board meeting and notionally approved; we're seeking formal approval today

- Cyber deep dive to occur in December, additional quarterly deep dive discussions planned for 2024

THANK YOU!

Questions?

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TO: The Finance and Audit Committee

FROM: Thomas Falcone

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

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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"); (ii) approve the annual report for the Policy; and (iii) approve amendments to the Policy, which Resolution is attached hereto as **Exhibit "A."**

Background

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 in September 2022. 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

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 from the Board's September 2022 review to the present. 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":

"LIPA and its Service Provider will strategically manage their respective risks to reduce the probability of significant outages, financial loss, health and safety events, and reputational harm."

- LIPA and PSEG Long Island have maintained an ERM program designed to evaluate significant risks and corresponding mitigation activities facing the business, including risks related to significant outages, financial loss, health and safety events, and reputational harm. As discussed below, LIPA has an active Enterprise Risk Management Committee that regularly discusses the most significant risks facing LIPA's and PSEG Long Island's

objectives and operations.

"LIPA will maintain an Enterprise Risk Management Committee ("ERMC") consisting of at least three staff appointed by the CEO, two of whom must be drawn from senior management, to oversee LIPA's Program and the activities of its Service Provider."

- LIPA has an active ERMC that reviews the progress and findings of the ERM Program, including discussions of the most significant risks facing LIPA and its Service Provider. Since the last annual report, the ERMC has met four 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.

- Currently, there are nine members on the Committee, including the CEO/CFO, COO, 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 is responsible for managing their identified risks. "LIPA's Service Provider will maintain a Risk Management Committee to oversee their ERM Program, to identify, assess, monitor, and manage their most significant risks, and report on those risks to LIPA's ERMC."

- PSEG Long Island maintains a Risk Management Committee that oversees its ERM program which identifies, assesses, monitors, and reports on the most significant risks to LIPA's ERMC through the issuance of their ERM Annual Report.

- The PSEG Long Island Risk Management Committee meets approximately four times a year.

"LIPA and its Service Provider will perform an evaluation of their most significant risks and corresponding management activities and report them to the senior management of LIPA and its Service Provider for review and evaluation on an annual basis, with ongoing monitoring 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 to LIPA and PSEG Long Island to understand root causes, mitigations in place, and actions that could be taken to further mitigate these risks. A risk analysis was performed on the time-of-day implementation plan and presented to LIPA senior management. Currently, the ERM Teams are working on a deep dive related to the locate and mark risk that will be discussed with management of both LIPA and PSEG Long Island.

- The F&A Committee receives an annual update on the ERM Program highlighting the significant risks and mitigation actions facing LIPA and its Service Provider concurrent with this annual report. Over the course of the year, there are additional presentations to the Board that discuss significant risks, some of which include: major storm, cyber security, safety, physical security, the outdated primary transmission control center, rates, call center, and staffing.

"LIPA and its Service Provider will review LIPA's insurance and other forms of coverage against insurable risks, including the availability and economics of such coverage, each year."

- The Second Amended & Restated Operations Services Agreement ("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.

- Since the last Board report, LIPA risk management and LIPA's Insurance Advisor provided oversight of the coverages placed by PSEG Long Island as required by the 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 most recent ERM maturity assessment was conducted in August 2022 in alignment with the Board-approved biennial review cadence. The ERM Program improved in many areas, including the risk assessment process and reporting, and enhancing enterprise-wide risk management skills. The ERM Team has developed a roadmap that focuses on making improvements in areas such as integrating risk analysis into business processes, enhancing the emerging risk process, measuring the effectiveness of mitigation actions, improving risk awareness and accountability, and over the long term, incorporating risk analysis into strategic planning. LIPA's Internal Audit department received 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 compares it to an industry benchmark. In accordance with the Policy, the next maturity assessment will be conducted in August 2024.

Annual Review of the Policy

The Board hired Leading Resources, Inc. to review the Board policies and facilitate discussion amongst the Trustees on amending certain policies. A working group of Trustees participated in various meetings to develop and draft amendments to the Policy. The draft amendments to the Policy have been shared with the entire Board. The final version of the amended Policy, as drafted by the Trustees, is attached hereto as **Exhibit "B."**

Recommendation

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

<u>Attachments</u>

Exhibit "A"   Resolution
Exhibit "B"   ERM Policy (redline)
Exhibit "C"   ERM Policy (clean)

RESOLUTION RECOMMENDING APPROVAL OF THE ANNUAL REPORT AND AMENDMENTS 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") has conducted an annual review of the Policy and recommends that the Board find that the Policy has been complied with and that the proposed changes to the Policy and due and proper.

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

BE IT FURTHER RESOLVED, that consistent with the accompanying memorandum, the Committee hereby recommends to the Board the approval of the changes to the Policy that are reflected in **Exhibit "B"**.

Dated: September 27, 2023

Board Policy:	**Enterprise Risk Management**
Policy Type:	**Operating** ~~Policies~~
Monitored by:	**Finance and Audit Committee**
Board Resolution:	**#1351, approved March 29, 2017** **#1428, amended September 27, 2018** **#1492, amended September 25, 2019** **#1572, amended December 16, 2020** **#xxxx, amended September xx, 2023**

Board Policy on Enterprise Risk Management

The ~~It is the policy of the Board of Trustees for the~~ Long Island Power Authority's ("LIPA") vision for ~~to maintain an~~ Enterprise Risk Management ("ERM") is to ~~build~~maintain an industry leading pProgram ~~(the "Program") to~~ that identifiesy, assesses, and monitors~~, and report on LIPA's most~~ significant risks to achieving ~~its~~ LIPA's ~~mission and delivering value to its customer owners~~purpose and vision and the Board's objectives as stated in each policy.~~to serve our customers and community by providing clean, reliable and affordable energy to Long Island and the Rockaways.~~ ~~, including those risks managed by its Service Provider.~~

LIPA ~~and its Service Provider~~ shall maintain ~~the~~ an ERM pProgram ~~and cause its service provider to maintain its own program to manage its specific risks~~[1] with the following key provisions:

- ~~LIPA and its Service Provider will~~ Sstrategically manage or oversee ~~their respective~~ risks to reduce the probability of significant outages, financial loss, health and safety events, ~~and~~ reputational harm~~;~~, and fail~~ing~~ure to achieve the Board Policy objectives.
- ~~LIPA will maintain an~~Led by ~~Create an~~ Enterprise Risk Management Committee ("ERMC")~~-~~, which Committee members will be appointed at~~s~~ the discretion of LIPA's Chief Executive Officer. ~~consisting of at least three staff appointed by the CEO, two of whom must be drawn from senior management, to oversee LIPA's Program and the activities of its Service Provider;~~
- LIPA's service provider will maintain a Risk Management Committee to oversee those risks and report to LIPA's ERMC.[2]~~LIPA's Service Provider will maintain a Risk Management Committee to oversee their ERM Program, to identify, assess, monitor, and manage their most significant risks, and report on those risks to LIPA's ERMC;~~
- ~~LIPA and its Service Provider will p~~Perform an evaluation of ~~their~~ its most significant risks and corresponding management activities ~~and report them to the senior management of LIPA and its Service Provider for review and evaluation on an annual basis, with ongoing monitoring between reviews;~~.

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[1] Section 4.2(5)(q)(i) of the Seconded Amended and Restated Operations Services Agreement ("2nd Amended and Restated OSA") requires that the Service Provider be responsible for "maintaining a comprehensive Enterprise Risk Management ("ERM") Program ("ERM Program") to identify, assess, monitor, and report on the Service Provider's most significant risks to the organization in accordance with the prevailing LIPA Board policy on Enterprise Risk Management."

[2] Section 4.2(5)(q)(vi) of the 2nd Amended and Restated OSA requires that the Service Provider be responsible for "establishing and maintaining a Risk Management Committee to oversee the Service Provider's ERM Program, including but not limited to, the risk assessment process, deep dives, risk escalation, and reporting on the most significant risks to LIPA's management team."

- LIPA and its Service Provider will review LIPA's insurance and other forms of coverage against insurable risks, including the availability and economics of such coverage, each year; and
- 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.

LIPA's Chief Executive Officer or his or her designee will report annually to the Finance & and Audit Committee of the Board on: (i) compliance with the Policy, including:

Athe key provisions of the Policy, including the results of a biennial review of the maturity of the program compared to industry best practices; and (ii) the review of the significant risks to LIPA's missionpurpose and vision; and
cCompliance with the key provisions of the Policy..

Board Policy:	**Enterprise Risk Management**
Policy Type:	**Operating**
Monitored by:	**Finance and Audit Committee**

Board Resolution:	**#1351, approved March 29, 2017**
	#1428, amended September 27, 2018
	#1492, amended September 25, 2019
	#1572, amended December 16, 2020
	#xxxx, amended September xx, 2023

Board Policy on Enterprise Risk Management

The Long Island Power Authority's ("LIPA") 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.

LIPA shall maintain an ERM program[1] with the following key 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 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.[2]

- Perform an evaluation of its most significant risks and corresponding management activities.

LIPA's Chief Executive Officer or his or her designee will report annually to the Finance and Audit Committee of the Board on: (i) compliance with the key provisions of the Policy, including the results of a biennial review of the maturity of the program compared to industry best practices; and (ii) review of the significant risks to LIPA's purpose and vision.

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[1] Section 4.2(5)(q)(i) of the Seconded Amended and Restated Operations Services Agreement ("2nd Amended and Restated OSA") requires that the Service Provider be responsible for "maintaining a comprehensive Enterprise Risk Management ("ERM") Program ("ERM Program") to identify, assess, monitor, and report on the Service Provider's most significant risks to the organization in accordance with the prevailing LIPA Board policy on Enterprise Risk Management."

[2] Section 4.2(5)(q)(vi) of the 2nd Amended and Restated OSA requires that the Service Provider be responsible for "establishing and maintaining a Risk Management Committee to oversee the Service Provider's ERM Program, including but not limited to, the risk assessment process, deep dives, risk escalation, and reporting on the most significant risks to LIPA's management team."