

March 25, 2014

INFORMATIONAL ITEM

MEMORANDUM TO THE AUDIT COMMITTEE

FROM THE SENIOR VICE PRESIDENT and CHIEF RISK OFFICER

SUBJECT: Risk Management Update

SUMMARY

This memorandum provides an update to the Audit Committee on the Authority's risk management activities.

BACKGROUND

In accordance with the Audit Committee Charter ("Charter"), the Chief Risk Officer is providing this update on the Authority's risk management activities. The Charter indicates that the Audit Committee will provide guidance to the Authority's Chief Risk Officer on critical business objectives, risks and philosophy and tolerance for risk mitigation. Through regular Chief Risk Officer informational updates, the Audit Committee will be informed of the Authority's risk management activities to assist in meeting their Charter objectives.

DISCUSSION

The Chief Risk Officer last provided an update at the Audit Committee's meeting on September 24, 2013. The PowerPoint presentation (Exhibit A) represents activities since that time to be reviewed with the Audit Committee at the March 25, 2014 meeting.

Exhibit A

Chief Risk Officer – Summary Report

March 25, 2014

Audit Committee Meeting

William Nadeau, SVP and Chief Risk Officer

Frank Deaton, Director Enterprise Risk Management

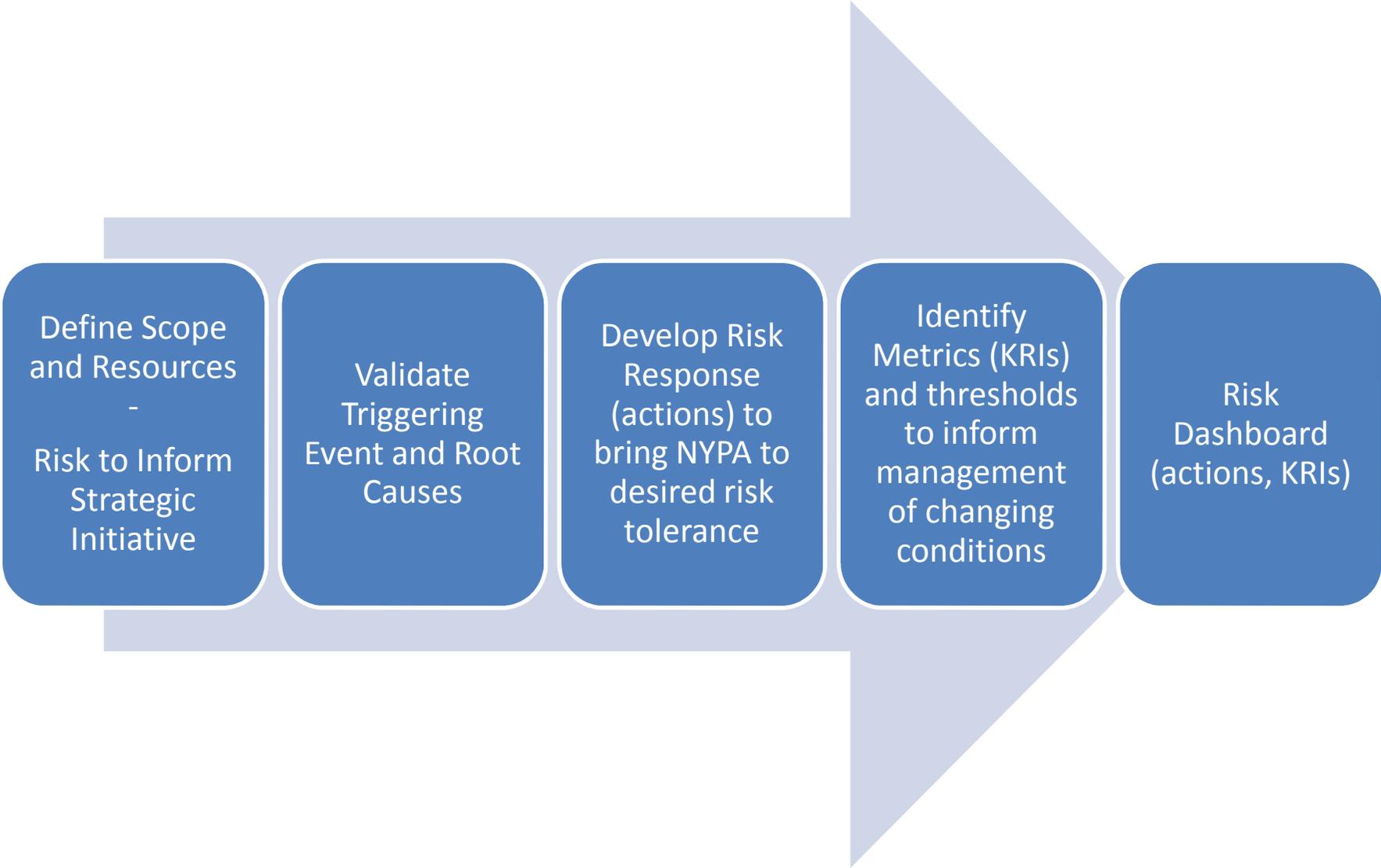
Executive Summary – Risk Pilot Project

- **Scope - Risk Response & KRI for two risks**
 - **Increasingly Difficult to Attract and Retain Workforce – SENY Region**
 - **Significant Increases in Non-Recurring O&M Expenditures**

- **Executive involvement/communication (Executive Risk Management Committee and Executive Management Committee)**

- **Results:**
 - **Create informed responses and monitoring metrics**
 - **Discovery of facts (process, constraints, etc.)**
 - **Risk awareness/culture – those participating acknowledge they are thinking differently**
 - **Time consuming – need sustainable process**

Pilot Project - Framework



Increasing O&M Expenditures

ENTERPRISE RISK RESPONSE

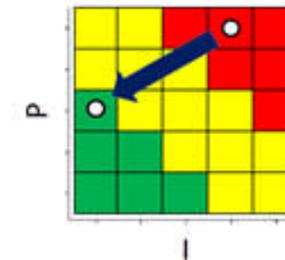
Risk Number: Risk Owner:

Risk Event:

Risk Response Strategy	Accept	Avoid	Mitigate	Share	Transfer
			X		

Risk Response Strategy Expected Outcome: Early communication between operations and budgets and clear direction on total O&M and total non-recurring O&M budgetary targets. Risk-based project and/or short-term long-term prioritization that is alignment with industry standard practices. Early executive engagement and decision making during the process in order to gain consensus and cross-functional buy-in.

Risk Score:
 Impact 4 x Probability 5 = **20**
 Risk Score Expected Outcome:
 Impact 1 x Probability 3 = **3**



Risk Response Plan		Owner	Date	Status
R1	Operations and Financial Planning- Process Improvement	Bob Hopkins		
R2	Project Substantiation and Asset Management	Dolly Jinvit		

Resources	Capital \$	O&M \$	FTEs	Budgeted (Y/N)	Year
Estimate					
Update					

Key Risk Indicator (KRI) Metric/Milestone		Threshold/Target	Actual 2013	Trend
KRI1	Rate increase significantly greater than inflation	5% or greater		
KRI2	Net revenue or customer impact due to deviation from current rate plan	\$8-10 million		
KRI3	Operational incidents due to deferrals			
KRI4	High priority project deferrals			
KRI5	Emergent deferrals during implementation year			
KRI6	Low priority projects that become emergent			

Attract & Retain - SENY

ENTERPRISE RISK RESPONSE

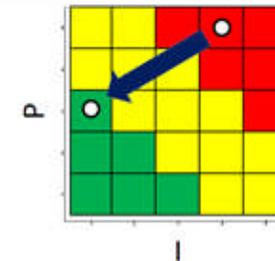
Risk Number: 388-2013 Risk Owner: Tim Zandes

Risk Event: Increasingly difficult to attract & retain workforce

Risk Response Strategy	Accept	Avoid	Mitigate	Share	Transfer
			X		

Risk Response Strategy Expected Outcome: Sustainable high performance workforce talent pool for predictable & reliable generation.

Risk Score:
 Impact 4 x Probability 5 = 20
 Risk Score Expected Outcome:
 Impact 1 x Probability 3 = 3



	Risk Response Plan	Owner	Date	Status
R1	Competitive pay aligned to local IPP market & local cost of living conditions	Galina Nisman	6/14 - 6/15*	
R2	Transform legacy organizational structure	Jim Anderson	12/15*	
R3	Effective two way & participatory internal communication	Tim Zandes	12/14	
R4	Develop sustainable operational workforce plan	Galina Nisman	12/15*	
R5	Obtain 500 MW NYC building code/fire code exemption	Jim Anderson	TBD	

* Represented may take longer

Resources	Capital \$	O&M \$	FTEs	Budgeted (Y/N)	Year
Estimate	NA	TBD	TBD	**	
Update					

** Depends on Response Plan

Key Risk Indicator (KRI)

Metric/Milestone	Threshold/Target	Actual 2013	Trend
KRI1 Non-retirement voluntary separation	1%	5%	