

Risk Management Update

July 29, 2014

Audit Committee Meeting

Frank Deaton, Director Enterprise Risk Management

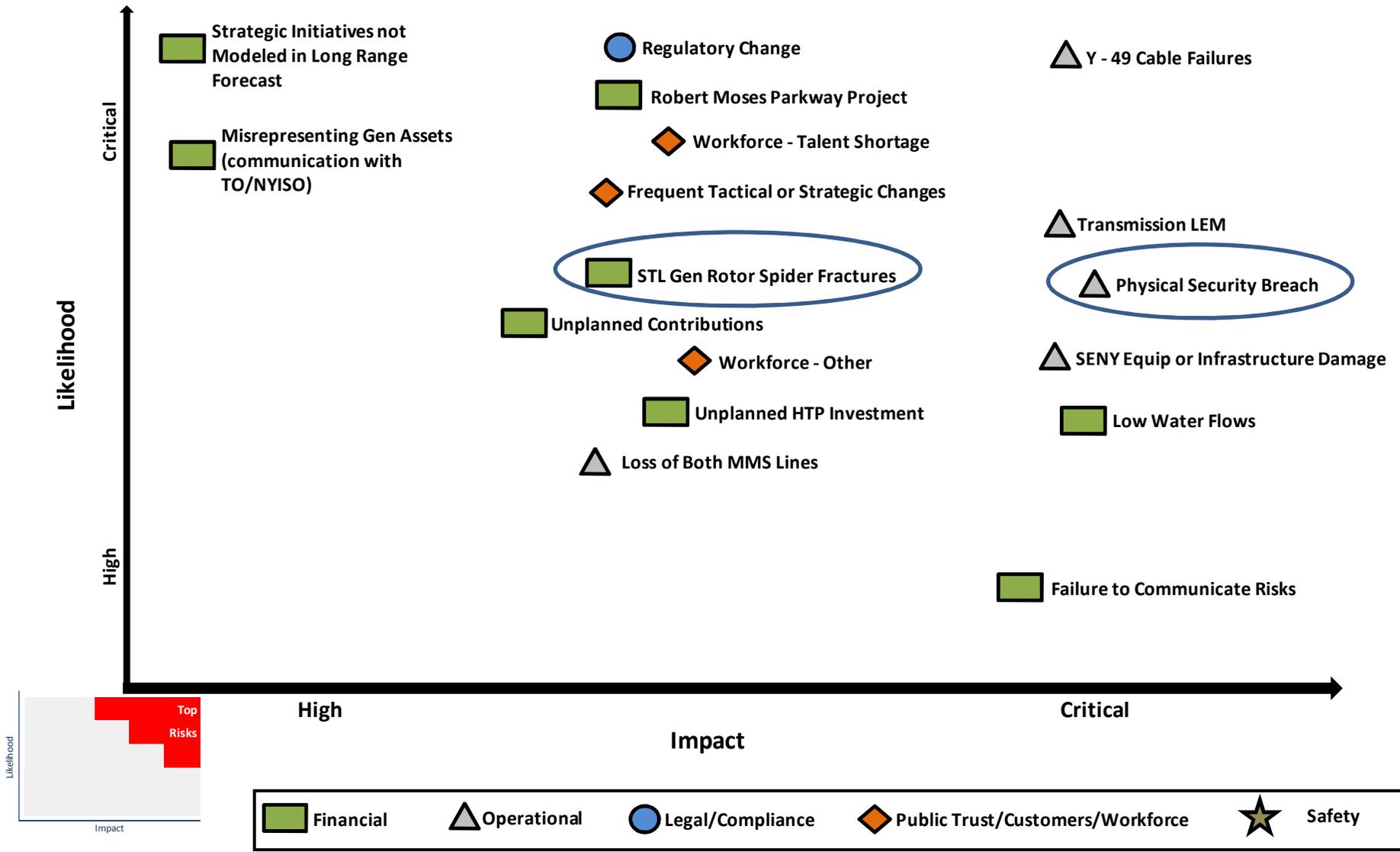
Executive Summary

- **2014 Risk Inventory Refresh**
 - **Top Risk Updates**

- **Risk Response**
 - **Response Strategy and Activities (all risks)**
 - **Deep Dives and Dashboards**

- **Upcoming**
 - **Cyber Briefings**
 - **Internal Audit**

Top Risks (updated 6/30/14)



Risk Dashboards

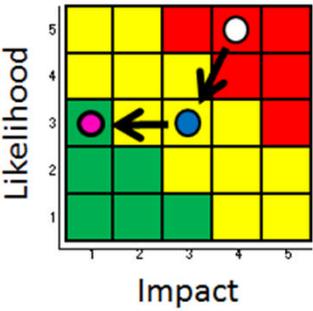
Significant Increases in Non-Recurring O&M Expenditures Risk Response Dashboard - June 2014

| | | | |
|--------------------|----------|-------------------|----------------------------|
| Risk Number | 374-2013 | Risk Owner | Tom Davis, VP Fin Planning |
|--------------------|----------|-------------------|----------------------------|

| | | | | | |
|--------------------------|--------|-------|----------|-------|----------|
| Response Strategy | Accept | Avoid | Mitigate | Share | Transfer |
| | | | X | | |

| | |
|--------------------------|---|
| Response Strategy | 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 in alignment with industry standard practices. Early executive engagement and decision making during the process in order to gain consensus and cross-functional buy-in. |
| Expected Outcome | |

| | |
|---------------------------------------|---|
| 2013: Impact 4 x Likelihood 5 = 20 | ○ |
| 2014: Impact 3 x Likelihood 3 = 9 | ● |
| Expected: Impact 1 x Likelihood 3 = 3 | ● |



| Risk Response Plan | | Owner | Date | Status |
|--------------------|---|--------------|--------|---------------------------------------|
| R1 | Operations and Financial Planning - Process Improvement | Bob Hopkins | May-14 | \$60 Million 2015 Target Number ● |
| R2 | Project Substantiation and Asset Management | Dolly Jinvit | May-14 | Implementing Project Prioritization ● |

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

| Key Risk Indicator (KRI) Metric/Milestone | | Threshold | Prior Period | Current Period |
|---|--|--------------------|----------------|------------------|
| KRI1 | Rate increase significantly greater than inflation | 2 x inflation (3%) | 8%* | 8%* ● |
| KRI2 | Net revenue or customer impact due to deviation from current rate plan | \$8-10 Million | \$13.7 Million | \$13.7 Million ● |

6/30/14 update

*Need for rate action was offset by favorable UCAP credits in the COS.

Risk Dashboards

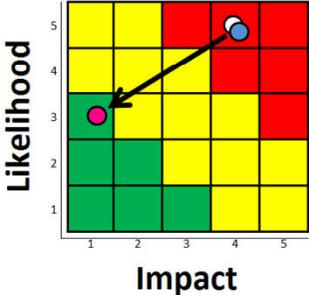
Increasingly Difficult to Attract and Retain Workforce - SENY Region Risk Response Dashboard - June 2014

| | | | |
|-------------|----------|------------|-------------------------------|
| Risk Number | 388-2013 | Risk Owner | Tim Zandes, SENY Regional Mgr |
|-------------|----------|------------|-------------------------------|

| | |
|---------------------------------------|---|
| Risk Score | |
| 2013: Impact 4 x Likelihood 5 = 20 | ○ |
| 2014: Impact 4 x Likelihood 5 = 20 | ● |
| Expected: Impact 1 x Likelihood 3 = 3 | ● |

| | | | | | |
|-------------------|--------|-------|----------|-------|----------|
| Response Strategy | Accept | Avoid | Mitigate | Share | Transfer |
| | | | X | | |

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



| | Risk Response Plan | Owner | Date | Status | |
|----|--|---------------|------------|--|---|
| R1 | Competitive pay aligned to local IPP market & local cost of living | Galina Nisman | 6/14 - 15* | One bid submitted for RFP | ● |
| R2 | Transform legacy organizational structure | Jim Anderson | 12/15* | Briefing to represented ongoing | ● |
| R3 | Effective two way & participatory internal communication | Tim Zandes | 12/14 | SENY Buzz launched | ● |
| R4 | Develop sustainable operational workforce plan | Galina Nisman | 12/15* | Job gap analysis underway | ● |
| R5 | Obtain 500 MW NYC building code/fire code exemption | Jim Anderson | NA | Costs are not material to proceed w/plan | |

* Represented may take longer

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

** Depends on Response Plan

| | Key Risk Indicator (KRI) Metric/ | Target | 2013 Year End | YTD June 2014 |
|------|-------------------------------------|--------|---------------|---|
| KRI1 | Non-retirement voluntary separation | 1% | 5% | 0% ● |

7/1/14 update

Confidential