

Date: March 29, 2016

To: THE TRUSTEES

From: THE PRESIDENT and CHIEF EXECUTIVE OFFICER

Subject: **Company Policy – Risk Management and
Executive Risk Management Committee Charter**

SUMMARY

The Trustees are requested to approve the 2016 Company Policy – Risk Management (the ‘Policy’) and the 2016 Executive Risk Management Committee Charter (the ‘Charter’), which are attached hereto as Exhibits “A” and “B.”

In accordance with leading industry practice, the Trustees’ approval of governance materials is intended as an affirmation of the philosophy, framework and delegation of authority for the Authority’s risk management activities, including the management of enterprise risks and energy commodity and credit risk.

The members of the Executive Risk Management Committee (“ERMC”) and the Audit Committee of the Board of Trustees reviewed the proposed Policy and Charter and recommend their approval.

BACKGROUND

At their meeting of May 22, 2014, the Trustees approved the 2014 Policy and Charter that are to be updated and submitted for annual Trustee approval.

DISCUSSION

The Policy and Charter establish the Authority’s governance related to risk management, including the management of enterprise risks and energy commodity and credit risk. As the enterprise risk management program matures, the Policy and Charter expands and improves the governance structure and controls and further establishes accountabilities for all Authority risk management activities.

Proposed changes include the conversion of the document into the Business Controls Group templates for consistency, update of definitions that better represent the Authority’s current risk management practice, the characterization of risk appetite as it pertains to the Authority’s mission, the development of a risk management framework and the authority to approve risk response activities. Also proposed is the clarification of the ERMC approval voting, the ability to provide for additional Committee members and the Chief Risk Officer’s responsibility to provide administrative support for the conduct of the ERMC meetings. These changes are summarized in the “Revision” section of Exhibits “A” and “B.”

RECOMMENDATION

The Senior Vice President – Chief Risk Officer recommends that the Trustees approve the 2016 Company Policy – Risk Management and the 2016 Executive Risk Management Committee Charter as reflected in Exhibits “A” and “B” and discussed above.

For the reasons stated, I recommend the approval of the above-requested action by adoption of the resolution below.

Gil C. Quiniones
President and Chief Executive Officer

RESOLUTION

RESOLVED, That the Company Policy – Risk Management (the “Policy”) and the related Executive Risk Management Committee Charter (the “Charter”) establishing the philosophy, framework and delegation of authority necessary to govern the activities of the Authority related to risk management, including the program for Energy Commodity and Credit Risk Management, is hereby adopted in the form attached as Exhibits “A” and “B”; and be it further

RESOLVED, That the Executive Risk Management Committee consisting of the Chief Financial Officer, who shall serve as Chair, plus four additional members is hereby granted the authority, within the requirements established by the Policy and Charter, to approve risk response activities; to enter into energy related commodity hedge transactions and to post any necessary collateral in support of such transactions, to meet the requirements of Authority customers or facilities for a transaction term not to exceed four years beyond the last day of the month the transaction is entered, with specific Trustee approval required prior to entering transactions, for energy and energy-related products of greater than a four-year term, or the issuance of competitive solicitations for same; and be it further

RESOLVED, That the Chairman, the Vice Chairman, the President and Chief Executive Officer, the Executive Vice President and Chief Operating Officer, the Executive Vice President and Chief Financial Officer, the Senior Vice President and Chief Risk Officer and any other necessary Authority officers are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all agreements, certificates and other documents necessary to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

Risk Management

Note: Revision # should be listed in descending order starting with most recent version at the top.

Revision Date(For BCG Use Only)	Revision #	Description/Modification	Revision Section (s)	Author
[Revision Date]	2	Annual Review process and conversion to new template format. This consisted of performing an annual review as well as re-aligning and combining sections to meet the new standard format.		Thomas Araneo (Senior Credit Analyst)
		Section 4 "Objectives" from the previous version (V1) has been converted and is now Section 1 Purpose and Scope of this policy.	1	
		Section 3 "Implementation" from the (V1) has been converted and is now Section 2 "Applicability" of this policy.	2	
		Risk Appetite has been added as an additional responsibility to Section 4 Responsibilities 4.2 Audit Committee of the Board of Trustees.	4.2	
		Risk Management Framework has been added as a function under section 5 Policy Implementation	5	
		Risk Event has been added to section 5 Policy Implementation as an additional Risk Management Framework function	5.2	

Printed copies are not controlled.

For the latest revision of this document, refer to the Policy and Procedure PowerNet Site.

Records will be retained in accordance with NYPA's approved records retention schedules and/or in compliance with all applicable legal requirements pertaining to NYPA.

1 PURPOSE AND SCOPE

The New York Power Authority (The Authority) considers the management of risk to be an integral part of its business practice. The purpose of this policy is to ensure Risk Management is embedded into existing business practices and processes.

2 APPLICABILITY

This Policy shall be adhered to by all Authority employees. Implementing procedures shall be prepared by individual business units to define the necessary management controls. All Risk Management activities shall be conducted in accordance with this Policy.

3 INITIALISMS (ACRONYMS) AND DEFINITIONS

CEO – Chief Executive Officer

CRO – Chief Risk Officer

ERMC – Executive Risk Management Committee

Risk – Any triggering event, action or inaction which is likely to prevent the Authority from, directly or indirectly, achieving its goals and objectives.

Risk Appetite – The amount of risk the Authority is willing to accept in pursuit of our mission. Strategic risk-taking can help achieve business objectives while maintaining adherence to organizational values and purpose.

Risk Event – Any negative triggering event through action, inaction or both, which is likely to prevent the Authority from achieving its goals and objectives. A risk event could be turned into a positive opportunity.

Risk Management – An integrated approach to identifying, assessing and addressing areas of uncertainty that could materially impair or enhance the achievement of the Authority's mission and objectives.

Risk Management Framework – A structured process that provides the foundation and organizational resources for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organization.

Risk Profile – The portfolio of risks across the enterprise.

Risk Response – Action or measure taken in advance of, or after, a risk occurs aimed at achieving the Authority's mission and objectives.

The Authority – New York Power Authority

4 RESPONSIBILITY

4.1 Board of Trustees - In accordance with leading industry practice, the Board of Trustees shall affirm the philosophy, framework and delegation of authority for the Authority's Risk Management activities.

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- 4.2** Audit Committee of the Board of Trustees - The Audit Committee seeks to enhance the Authority's Risk Management infrastructure and ensure timely and effective identification and mitigation of critical business risks. The Audit Committee shall provide guidance to the Authority's Chief Risk Officer on Risk Management philosophy; mission and vision assumptions; and critical business objectives including risk appetite and risk response prioritization in accordance with CP 5.1 Internal Audit Charter.
- 4.3** President and CEO - This Company Policy is established under the authority of the President and CEO.
- 4.4** CRO - The CRO is responsible for providing overall leadership, vision, and direction for Risk Management. The CRO shall work with the ERMC to ensure this Policy and related implementing procedures are maintained to direct Risk Management processes. The CRO will present updates to the President & CEO, Board of Trustees and the Audit Committee.
- 4.5** ERMC - The ERMC is a committee established by the Board of Trustees in accordance with the requirements of this Policy and shall act as management's controlling authority with respect to Risk Management activities. The ERMC shall be governed by the provisions outlined in the ERMC Charter.
- 4.6** Risk Management Business Unit - Under the CRO's direction, the Risk Management Business Unit facilitates the activities of Enterprise Risk Management, Energy Commodity and Credit Risk and Insurance Risk Management.
- 4.7** All Authority personnel, contractors, business units and departments are responsible for the management of relevant risk. Authority personnel, contractors, business units and departments shall make and support risk-informed decisions and remain vigilant in identifying and communicating emerging risk issues that could impact the Authority's success.
- 4.8** Internal Audit - In accordance with its independent role (CP 5.1 Internal Audit Charter), Internal Audit shall conduct periodic independent evaluations of the adequacy and effectiveness of the Authority's Risk Management processes.

5 POLICY IMPLEMENTATION

This Policy establishes the following Risk Management Framework:

- 5.1** A structured process for consolidating the inventory of risk assessments around risk categories.
- 5.2** Informs executive management and stakeholders of the causes and consequences of potential Risk Events.
- 5.3** Establishes a Risk Profile to enable the Authority to fulfill its mission with an informed forward-looking risk view to optimally allocate resources.
- 5.4** Includes business processes, procedures, evaluation tools and methodologies for risk and control identification, assessment and communication.

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- 5.5** Evaluates the appropriateness and effectiveness of Risk Response plans. The primary mandate of Risk Response shall be the containment of exposures within the established Risk Appetite.

6 VIOLATIONS

Any willful act leading to the violation of this Policy and related policies and procedures by employees may result in disciplinary action up to and including termination. Violations of this Policy by contractors and other authorized third parties may result in the revocation of such party's access to the Authority's premises and/or electronic access to its systems and the termination of such party's contract for services. In addition, where the conduct engaged in is illegal, violators may be subject to prosecution under applicable federal, state or local laws.

7 REFERENCES

- 7.1** CP 1-1 Company Policy Program Administration
- 7.2** Executive Risk Management Committee Charter
- 7.3** CP 5-1 Internal Audit Committee Charter

8 POLICY REVIEW AND EXPIRATION

This document will be reviewed and updated as business needs require. However, a mandatory review will be required on the anniversary date of the approved document.

Revision cycle: Every Year

9 ATTACHMENTS

N/A

Executive Risk Management Committee
Charter

Note: Revision # should be listed in descending order starting with most recent version at the top.

Revision Date(For BCG Use Only)	Revision #	Description/Modification	Revision Section (s)	Author
[Revision Date]	1	Annual Review process and conversion to new format; annual review as well as realigning and combine sections to be consistent with new format.		Thomas Araneo (Senior Credit Analyst)
		Risk Appetite has been added to sections 4 and 5	4.2, 4.6 and 5.2	
		Risk Management Framework has been added	5.3	
		CFO general responsibilities have been added	5.2 & 5.3	

1 PURPOSE

The Executive Risk Management Committee (ERMC) is hereby established by the Board of Trustees to provide Risk Management oversight in accordance with the requirements of the New York Power Authority (the Authority) Company Policy 2-15 – Risk Management.

The Board of Trustees herein delegates to the ERMC the authority to pursue risk mitigation strategies, which could include entering into Hedge Transactions, to remain within the Authority's established Risk Appetite.

2 INITIALISMS (ACRONYMS) AND DEFINITIONS

CEO – Chief Executive Officer

CFO – Chief Financial Officer

CME – Chicago Mercantile Exchange

Counterparty - An entity that has an executed, active master agreement with the Authority and is approved to participate in commodity related hedging activities.

CRO – Chief Risk Officer

EMC – Executive Management Committee

ERMC – Executive Risk Management Committee

Hedge Transaction – A transaction between NYPA and a Counterparty or a transaction cleared using CME or ICE which will therefore define the price of commodities for future delivery of a specified quantity.

ICE – Intercontinental Exchange

Risk – Any triggering event, action or inaction which is likely to prevent the Authority from achieving its goals and objectives (directly or indirectly).

Risk Appetite – The amount of risk the Authority is willing to accept in pursuit of our mission. Strategic risk-taking can help achieve business objectives while maintaining adherence to organizational values and purpose.

Risk Management – An integrated approach to identifying, assessing and addressing areas of uncertainty that could materially impair or enhance the achievement of the Authority's mission and objectives.

Risk Management Framework – A structured process that provides the foundation and organizational resources for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organization.

Risk Profile – The portfolio of risks across the enterprise.

Risk Response – Action or measure taken in advance of, or after, a risk occurs aimed at achieving the Authority's mission and objectives.



3 COMMITTEE COMPOSITION

- 3.1** The ERMC shall consist of a minimum of five (5) voting members, with the CFO as its chair and a minimum of four (4) additional members as appointed by the President and CEO.
- 3.2** The CRO is a de facto, non-voting, member of the ERMC.
- 3.3** The business unit leads of Internal Audit, the Controller's Office and Wholesale Commercial Operations each have a standing invitation to attend ERMC meetings but such attendance does not constitute ERMC membership or voting rights.

4 AUTHORITY

The ERMC is authorized to:

- 4.1** Provide oversight and guidance to management on all the Authority's Risk Management in accordance with the requirements of Company Policy 2-15 – Risk Management.
- 4.2** Establish and assess the Authority's Risk Profile and Risk Appetite.
- 4.3** Ensure that assigned risk owners have ERMC approval which gives them the authority to support Risk Response plans.
- 4.4** Authorize a program for energy commodity and credit risk management which may include the use of commodity hedge transactions utilizing both physical and financial instruments.
- 4.5** Delegate to approved personnel the necessary permission to commit the Authority to the terms of physical and financial derivative transactions necessary for the conduct of its business within its established Risk Appetite.

5 GENERAL RESPONSIBILITIES

- 5.1** The ERMC's general responsibilities are as follows:
 - a. May request any other officer, employee, or consultant to the Authority to meet with any members of, or consultant to, the committee
 - b. May request Authority personnel to prepare Risk Response strategies such as Hedge Transactions to be presented to the committee for review, approval and execution as outlined in related procedures or as otherwise requested by members of the committee.
 - c. Approve Risk Appetite
- 5.2** The CFO's general responsibilities, as they pertain to the ERMC, are as follows:
 - a. Chair all ERMC meetings or delegate that responsibility to another member
 - b. Provide guidance as it pertains to the Risk Appetite
- 5.3** The CRO's general responsibilities, as they pertain to the ERMC, are as follows:
 - a. Provide all necessary administrative support for the conduct of the ERMC meetings



- b. Advise the CEO, Board and other members of the committee as well as business units within NYPA on potential risks
- c. Develop and communicate the Authority's Risk Management Framework
- d. Consult on strategic management process
- e. Develop Risk Management procedures
- f. Work with business units and ERMC to monitor and manage risks
- g. Provide updates to the ERMC, EMC and NYPA's Board of Trustees

6 APPROVAL PROCESS

- 6.1** ERMC business shall only be conducted during an ERMC meeting.
- 6.2** An ERMC meeting quorum shall consist of any three (3) members including the chair; participation may be in-person, by video link or by telephone when reasonable assurance is provided of the identity and ability of such members to participate in the meeting discussion.
- 6.3** Voting on ERMC matters shall be on a one member-one vote basis. When a quorum is present, the vote of a majority of the ERMC members shall constitute the action or decision of the ERMC.

7 RECORDS

The minutes for all ERMC meetings shall be recorded and motioned for approval at the next regularly scheduled meeting. All approved ERMC minutes are retained in the Records Management System, available to all NYPA employees and available to the public pursuant to a formal request process.

8 COMMUNICATIONS

- 8.1** All ERMC meeting schedules shall be coordinated with the Chairperson.
- 8.2** At the direction of the CFO and/or CRO, members of the Risk Management Department shall coordinate the meeting of the ERMC, including maintaining the schedule, agenda and minutes.
- 8.3** The ERMC shall meet monthly and/or as determined necessary by the CFO and/or CRO.
- 8.4** Except in the case of an emergency, the notice period for a meeting in person shall be at least ten business days prior to the date of such meeting.

9 MEETING SCHEDULE

- 9.1** This document must be reviewed and approved annually or as business needs require.



- 9.2** The ERMC shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Audit Committee for their approval as well as approval by the Board of Trustees.
- 9.3** Records will be retained in accordance with the Authority's approved records retention schedules and/or in compliance with all applicable legal requirements pertaining to the Authority.

10 CHARTER REVIEW

- 10.1** Company Policy 2-15 – Risk Management
- 10.2** Procedure for Energy Commodity & Credit Risk Management