



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD



TO: Commissioners Carlson, Barofsky, McRae, Schlossberg, and Brown
FROM: Rod Price, Assistant General Manager; Sarah Gorsegner, Business Continuity Manager; and Ken Baldwin, Enterprise Risk Program Manager (Temporary Assignment)
DATE: June 23, 2023
SUBJECT: SD20 Annual Enterprise Risk Management (ERM) Update
OBJECTIVE: Information Only

Issue

Board Policy SD20 requires a periodic report on the status of Enterprise Risk Management (ERM) activities. This memo provides ERM information for the past year.

Background

Board Policy SD20 outlines EWEB's commitment to an enterprise-wide approach to risk management. As a practice, ERM supports the achievement of operational and strategic objectives, including safety, reliability, responsible stewardship of our customer-owners' financial and natural resources, and regulatory compliance. Managing risk is an integral part of decision-making across EWEB and is not a stand-alone activity. EWEB's risk management efforts include the Safety, Cyber Security, Dam Safety, and Physical Security programs; the Water Division's Risk and Resiliency Assessment and Mitigation Plan; Wildfire Mitigation and Natural Hazard Mitigation Plans; Human Resources Compliance; and the Power Risk Management Committee. ERM staff coordinates EWEB's risk management efforts, which includes identifying and analyzing existing risks, monitoring emerging risks, creating and implementing mitigation strategies, and reviewing those strategies to ensure that decisions are risk-informed, and the risk retained is acceptable.

Discussion

At the end of 2022 and during the first quarter of 2023, our annual risk analysis was completed to determine which risks ERM should focus on from an organization-wide perspective. Top risks were identified based on analysis of feedback received during interviews with the Executive Team and Managers.

The topics addressed below focus on business continuity risk with a focus on risks that could impact our ability to provide the critical water and electrical service and meet our compulsory obligations to provide those services. Strategic risks, while important, have less potential to interrupt critical services and leadership has more time to address and impact these issues. Areas of strategic risk include organizational culture, strategy deployment, and customer confidence.

The main business continuity risk themes that emerged this year include:

- Workforce Planning and Employee Retention
- Technology and Catastrophic Loss of Data Center
- Financial

- Operational
- Natural Disaster
- Information and Records Life Cycle Management
- Compliance and Regulatory Risk

Many of these risks have been tracked, and project and routine work have been identified to address many of the risks. ERM Staff have evaluated the residual risk and have identified areas and recommendations to address the remaining concerns.

Workforce Planning and Employee Retention: Entry level and customer facing positions continue to enjoy a robust hiring pool and EWEB continues to be a sought-out employer. Advanced-level and technical positions such as Engineers, Senior Cyber Security Specialists, Dam Safety Analysts, and Meter Technicians continue to be challenging to fill as high demand is seen throughout the labor market. Balancing employee development with hiring an experienced workforce is a tension that impacts employee morale as well as the overall skills and experience of work teams. Competitive total compensation packages and work practices are areas to continue to monitor and evaluate.

Mitigation Recommendations: These risks are addressed in the Organization Goals to build and inspire the workforce and workplace culture, evolve our Dynamic Workforce Model, and integrate the new IBEW Contract. In addition, evaluating and considering change based on feedback from the employee survey and developing DEI as part of the EWEB culture can help create a positive workplace for staff, EWEB has traditionally enjoyed low turnover rates, continuing to monitor and manage turnover is recommended. Management should consider cross-training, employee pipeline development for specific roles, and succession planning development. The Workforce Services team did a compensation review in the Fall of 2022 to align the compensation to market; continuing to review in a 3-year cycle is encouraged.

Technology and Catastrophic Loss of Data Center: Technology risks include aging software and infrastructure such as old operating systems and servers that limit our ability to integrate and maintain professional support. Loss of the data or cyber intrusion with significant impacts such as malware or ransomware could limit EWEB's ability to provide services due to loss of access to key systems and data. As the technology industry has moved towards cloud-based offerings EWEB must continue to weigh the risks alongside the benefits of shifting responsibility of backup systems and recovery options to external providers.

Mitigation Recommendations:

Several projects are underway to address technology concerns. Two examples are the recently launched EWEB Enterprise Solutions (EES) project aimed at modernizing our customer information system and financial system, and relocation of the backup data center to increase reliability. In addition, controls need to continue to be managed and matured as technology and security requirements change. Cyber Security resources need to evolve with changing vulnerabilities. Key data should be categorized, EWEB staff should practice recovery from the backup tools as well as having plans in place to operate in the absence of technology.

Financial: EWEB has had several years with limited rate increases and financial stability with the ability to meet financial metrics. Over the next 10 years significant project work, as well as inflation, and increasing costs to borrow may challenge our ability to meet metrics and keep rates reasonable. Contractual risk could impact EWEB's ability to meet our service and financial obligations for both market access and pricing constraints.

Mitigation Recommendations: The Organization Goals and Strategic Plan both address financial planning including: keeping Cost/Efficiency (Affordability) aligned with societal levels of inflation, planning for electric resource contracts and managing EWEB owned resources, and rate design work. Planning and developing asset management strategies will be critical for financial planning and communicating with our customers to help them understanding rates and resource requirements. Diversifying our power partner portfolio, negotiating long term contracts, and advocating for resource availability are areas to consider in our purchased power contracts.

Operational: In order to continue to improve our operational effectiveness across the Utility, we will be required to maintain or improve the quality, safety, resiliency, and modernization of systems. EWEB's infrastructure continues to age with some equipment at the end of its useful life, thus capital and resource replacement planning must continue so that system replacement work can be spread over multiple years as opposed to happening at one time. In addition, planning for a second water source and treatment plant and adapting systems to minimize disruptive events can help meet resiliency efforts. Supply chains for the utility industry are limited, availability and cost can limit our ability to provide products and services. Staff will also need to consider tools and resources to operate within the direction of Greenhouse Gas (GHG) Reduction goals under SD15, EWEB's Climate Change Policy.

Mitigation Recommendations: The Organization Goals and Strategic Plan address resiliency, safety and security including protection of life assets and property. The Organization should continue to refine key performance indicators that demonstrate the organization is meeting Board direction and improve quarterly reporting to better capture where there are gaps in meeting our values, if any, in operational performance. Management should continue supporting significant project work such as the second water source, reservoirs, substation rebuilds, and dam safety and license compliance. To minimize impacts of the limited availability of materials and equipment staff should plan for longer lead times, store higher quantities of key materials, developing alternative options to complete the work, and develop vendor relationships with a variety of suppliers. EWEB has increased its transparency in implementing SD15 through the development of the Climate Guidebook and will continue to measure and report on EWEB GHG emissions from operations annually.

Natural Disaster: Natural Disasters can cause significant damage to infrastructure, while limiting access to staffing, communication, equipment and supplies, and other resources. Natural disasters could range from seismic activity, flooding, wildfire, wind/snowstorms, excessive heat, and others. EWEB has experience restoring service and responding to smaller disasters where most infrastructure can be restored quickly and with minimal outside resources. In addition to acute disasters where the impact is quick and response is needed immediately, other challenges could be slower to develop and staff should actively manage and review them.

Mitigation Recommendations: EWEB has recently engaged in several mitigation steps to prepare and implement efforts for emergency preparedness including: hiring an Emergency Management Analyst, drafting a Resiliency Policy, developing a policy for incident response training, developing Public Safety Power Shutoff protocols, and developing Continuity of Operations Planning. To develop strategies and a plan to meet our obligations under SD15, a Climate Policy Analyst was hired and is working with internal and external partners to develop a Climate Guidebook to guide and support the organization to implement and manage our work.

Information and Records Life Cycle Management: Technology resources have made tools available to store information and data in a variety of locations including both in the cloud and on EWEB networks. Information becomes increasingly hard to find, and awareness and accessibility are challenged. It can also be challenging to determine if the right data is stored and if it is accurate. As data is captured in disparate systems, we must

consider how we use that data to help Management make informed and confident business decisions. Most records created by EWEB staff are a public record and are required to follow records retention programs.

Mitigation Recommendations: ERM recommends an enterprise-wide Data Management/Governance plan would help to direct staff for meeting operational and retention requirements. Elements that should be addressed include defining where to store information, determining what is master data, categorizing and managing confidential and non-confidential information, creating a quality control program, identifying opportunities to evaluate system data overlap and synergies, and purging obsolete data.

Compliance & Regulatory: Legislative changes, compliance requirements, and regulatory policies continue to impact EWEB work. More requirements and regulations require resources to record information, train, report, and in some situations revise operations. Anticipating and responding to these evolving challenges will help us be prepared for meeting our compliance obligations, many of the requirements are intended to improve reliability and resiliency of our services. Two examples follow:

Dams regulated by Federal Energy Regulatory Commission (FERC) must be maintained and operated in ways to prioritize public safety. As a holder of hydropower licenses under FERC, EWEB has responded to regulation changes to 18 CFR Part 12, Safety of Water Power Projects and Project Works, which became effective April 11, 2022 and our enhanced dam safety program and continuous inspection and compliance strategies are helping identify means to lower risk factors across multiple areas.

The Environmental Protection Agency (EPA) released Lead and Copper Rule Revisions (LCRR) on December 19, 2021, with required inspections of service lines to be completed by August 31, 2024. Assessments are anticipated to be finished by the end of Q4 2023. EWEB will notify customers of any services out of alignment with industry regulations and assist with monitoring, filtering, and implement recommended solutions.

Mitigation Recommendations: Knowledge of industry developments is key to addressing emerging regulations and compliance obligations. Knowledge can be developed through participation in industry training, tracking proposed legislative bills, and working with regulating agencies. Tracking proposed regulations and anticipating impacts, and then incorporating the changes into operational workplans as the proposed changes are adopted will help to meet compliance and regulatory obligations.

Over the past years, risks were categorized as resiliency, alignment, and modernization risks. These are broad categories and the risk themes that emerged during the 2022 risk analysis fall within these categories as well, with some overlap between categories:

Resiliency: Technology and Catastrophic Loss of Data Center, Financial, Operational, Natural Disaster, Information and Records Lifecycle Management, Compliance and Regulatory

Alignment: Workforce Planning and Employee Retention

Modernization: Operational, Information and Records Lifecycle Management

Other Functions of ERM Team:

ERM staff are responsible for compliance with public records archival and request laws, claims, insurance procurement, and responses to subpoenas. In 2022 EWEB addressed 41 public record requests and EWEB has received 19 so far in 2023. Most liability and recovery claims EWEB experiences are within the self-insurance threshold and are resolved internally. EWEB has settled 2 lawsuits over the past year and continues to manage and support the lawsuits for the Holiday Farm Fire. EWEB maintains a broad portfolio of insurance policies to cover a variety of other exposures. This portfolio is evaluated at least annually to ensure the types and levels of coverage purchased continue to be adequate to mitigate risk. ERM staff report quarterly to Management on compliance activities. ERM staff also manage the Contract Governance program which is designed to address non-standard contracts developed outside the Purchasing department. Presently, nearly 270 active contracts are being tracked. Training continues to be a strong focus, including comprehensive ethics training for all new hires and refresher ethics training for all employees.

Cost of Enterprise Risk Management Team Activities at EWEB:

April 2022-March 2023 Insurance program covering property, casualty, fiduciary, cyber, crime and employment practices risk: \$1,721,712
2022 ERM Staff: \$345,142.46
2022 Legal Counsel: \$89,594**
2022 Claims paid: \$65,230
2022 Claims recovered: \$176,701.90

Total Risk Management Costs for Insurance, Staff, Legal Counsel, and Claims in 2022: **\$2,044,946

**Excludes Holiday Farm Fire Legal Fees which are covered by Electric Division

Requested Board Action

This item is information only and accordingly there is no requested Board action.