M E M O R A N D U M

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Mital, Schlossberg, Helgeson, Brown, and Carlson

FROM: Deborah Hart, Chief Financial Officer; Sarah Creighton, Enterprise Risk Supervisor

DATE: July 1, 2020

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 program, Cyber Security program, Dam Safety program, and the Power Risk Management Committee (RMC). 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 2019, an updated risk analysis was completed by staff and Management to determine which risks ERM should focus on from an organization-wide perspective. Top risks were selected based on projected impact and likelihood of occurrence after mitigation strategies were applied. These risks were determined to be:

- Agile risk-aware culture
- Security of cyber and physical assets
- Natural disasters and climate change

Last year's SD20 update reflected that "complying with contracts other than those for goods and services" and "legal and regulatory compliance" were identified as top risks. Since that time, staff's efforts to standardize contract governance and continuous improvement of the compliance program have led to a more consistent approach with more predictable outputs. While both risks remain a top priority, effective mitigation strategies have reduced the likelihood of negative outcomes and provided bandwidth to focus on other top risks.

<u>Agile Risk-Aware Culture:</u> The utility industry is changing rapidly; new risks emerge with very little notice, and new technologies arise that may require skills that are in short supply. EWEB needs a

workforce with the requisite talent and skills needed to think creatively and nimbly in a rapidly changing digital marketplace, execute high-performance business models, and implement increasingly demanding strategies.

An organizational culture that fosters resistance to change and foregoes the timely identification and escalation of critical risks can lead to missed opportunities, decision-makers losing touch with business realities, and failure to achieve strategic objectives. Conversely, an organization that fosters psychological safety creates the foundation of effective risk management and continuous improvement, seeking to empower employees and remove fear of speaking up. Teams that operate at the high levels of trust brought about by an environment of psychological safety can work together more efficiently and creatively.

Supporting an effective risk-aware culture is being accomplished in a variety of ways. Diversity, equity and inclusion tools are being utilized to more intentionally reinforce psychological safety across the organization. The Continuous Improvement team's suite of tools includes the Empowerment Tree, which helps leaders empower employees to make appropriate decisions. The Dam Safety department is developing a Risk Informed Decision Making (RIDM) process to more effectively address risks at our generation facilities. ERM staff have created and implemented risk-aware decision-making tools that walk users through the risk assessment process to help ensure decisions are made by considering a variety of perspectives and potential outcomes. ERM staff also support risk-based decisions and prioritization by consulting on various projects across the utility and seeking to further engage more front-line employees in thinking critically about the risks they face. ERM continues to spend time with each new employee within their first six months at EWEB to provide an overview of ERM areas with the intent of supporting a cultural narrative that risk issues can and should be escalated and addressed.

<u>Security of Cyber and Physical Assets:</u> Cyberattacks specifically targeting automated power systems are increasing, including industrial control (SCADA) systems. Much of EWEB's critical energy infrastructure is physical assets, susceptible to physical attacks that would not only have severe implications for reliable electric service over a large geographic area but also involve assets that have lengthy lead times to replace. Any compromise of utility assets would create a negative customer and community impact.

Employee awareness is a critical component of both cyber and physical security. ERM staff employs a variety of communication methods including posters, emails, articles, and training to help keep security in the forefront of EWEB employees' minds. The Water utility recently completed a Risk and Resilience Assessment, as required by America's Water Infrastructure Act of 2018, which considered an all-hazards approach to identifying relevant threats and developed a prioritized implementation plan to mitigate identified risks to EWEB's critical water infrastructure assets. Staff is working on a physical and cyber security assessment of the ROC this year. EWEB's phishing response processes have been refined, including implementing a warning banner for external emails, and additional phishing mitigation efforts are being explored.

Privacy of employee and customer personal information remains a high priority. Annual identity theft prevention training, required for staff whose jobs require access to personal information, includes a strong focus on physical and cyber security. Teaching users to know when something does not look right is an integral piece of the ongoing cyber security strategy. The Privacy Committee continues to investigate and respond to potential breaches of personal information. Over the past year, no potential events were reported.

<u>Natural Disasters and Climate Change:</u> These two risks are interrelated, as climate change leads to increasing extremes in natural disasters. Climate-change driven water shortages foreseen in the West have implications for hydroelectric power production as well as source water sufficiency. Peak loads may shift, stressing resource adequacy and infrastructure resiliency. Larger impact and longer duration wind, snow and ice storms can cause damage to electrical infrastructure and increase time of restoration and repair. There may also be shifts in wildfire patterns with implications to our infrastructure and community. In the case of a subduction zone earthquake, widespread and long duration electric outages could occur as a result of damage.

There is work underway to address these risks. Recruitment is underway for an Emergency Manager to serve as the point person for EWEB's response to natural and other types of emergencies. EWEB participated in the regional Natural Hazard Mitigation Plan. Water staff are actively partnering with SUB to explore options for a second water treatment plant to mitigate the risk of a natural disaster. Electric staff have begun working toward adoption of a wildfire mitigation plan by gathering information and lessons learned from peer utilities, attending utility group meetings, and staying up-to-date on pending legislative changes. Additionally, Electric staff have completed continuous improvement efforts related to EWEB's ICS response to storms to reduce restoration times and move restoration procedures to a more modern format, less reliant on paper and allowing for more real-time transparency and communication to customers around their specific situation in an outage. Electric staff have engaged with consultants to analyze backup power recovery possibilities for critical loads through use of local generation. This information will be used to formalize a critical load restoration procedure to be used in a disaster scenario. Learnings from ICS and emergency preparedness have helped inform planning efforts in response to the recent COVID-19 pandemic, and staff continues to monitor the health, safety, and financial effects EWEB is experiencing.

<u>Other Functions</u>: ERM staff are responsible for compliance with public records archival and request laws, claims, insurance procurement, and responses to subpoenas. The majority of liability and recovery claims EWEB experiences are within the $2 million self-insurance threshold and are resolved internally. 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, helping to ensure real time conversations on compliance opportunities. ERM staff also manage the Contract Governance program, designed to address non-standard contracts developed outside the Purchasing department. Presently, over 250 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.

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