

# Exhibit to Agenda Item # 5

Accept the monitoring report for **Strategic Direction SD-17, Enterprise Risk Management.**

Board Finance & Audit Committee and Special SMUD Board of Directors Meeting  
Tuesday, December 8, 2020, scheduled to begin at 5:30 p.m.

Virtual Meeting (online)

# SD-17 Enterprise Risk Management (ERM)

Effectively balancing and managing risk to further SMUD's policies and business goals is a core value of SMUD.

Therefore:

SMUD will implement and maintain an integrated enterprise risk management process that identifies, assesses, prudently manages and mitigates a variety of risks facing SMUD, including financial, supply, operational, physical and cyber security, climate change, legal, legislative and regulatory, and reputational risk.

**SMUD is compliant with SD-17, Enterprise Risk Management Policy**

# ERM Approach and Methodology

## Approach

- Governance (Board Strategic Direction)
- Oversight & Accountability (EROOC)
- Consistent Definitions and Language (ERM Framework)
- Integration of ERM with Key Business Processes

## Methodology

- Enterprise Risk Analysis (focused on top risks)
- Periodic EROOC Meetings
- Annual and Periodic Review of Enterprise Risk Portfolio

# Stress Testing the Process

## State-wide blackouts

- SMUD assets continued to perform
- Enough power supply and reserve available
- Provided support to neighboring utilities

## COVID-19

- People – Staff received training
- Process – Policies were implemented
- Technology – Technology and security measures were put in place for staff to work from home

# 2019-2020 Enterprise-wide Risk Activities and Outcomes

## **Build resiliency for future impacts and capabilities for future opportunities**

- Conducted risk-based budgeting and project prioritization process

## **Increase capabilities in wildfire mitigation activities**

- Conducted an enterprise-wide wildfire table-top exercise

## **Demonstrate SMUD's leadership in addressing climate change**













- Completed and submitted Carbon Disclosure Project document

## **Increase capabilities of cyber security**

## **Increase operational efficiencies through the alignment of audit and risk functions**

- Reviewed and integrated 5 audit reports into risk assessments

# SMUD's risks are consistent with benchmarking

North Carolina State University and Protiviti's Top Risk	SMUD's current risk exposure
Regulatory changes and heightened regulatory scrutiny	 ↔ 
Resistance to change may restrict necessary adjustments to the business model and core operations	
Organization may not be sufficiently prepared to manage cyber threats that could disrupt operations	
Succession planning and talent management	
Existing operations and IT may not be able to meet performance expectations (quality, time to market, innovation, etc.)	
Economic conditions may restrict growth opportunities	
Ensuring privacy/identity management and information security/system protection may require significant resources	
Organization's culture may not sufficiently encourage timely identification and escalation of risk issues	
Organization may not be prepared to manage unexpected crisis	
Inability to use data analytics to achieve market intelligence	 ↔ 

# Looking Forward

## ERM Program review and enhancements

### Financial Risks

- Leverage risk tools to help build resiliency and future capacity in financial planning; expanding upon approaches used for the 2021 budget plan

### Operational Risks

- Attract and retain skilled and innovative workforce
- Make progress in strengthening aging infrastructures
- Enhance data quantity and quality for business and customer decisions
- Continue cyber security and privacy awareness and compliance activities
- Provide programs and services which reflect the customer's changing expectations

### Strategic Risks

- Develop and implement the 2030 Zero Carbon Project

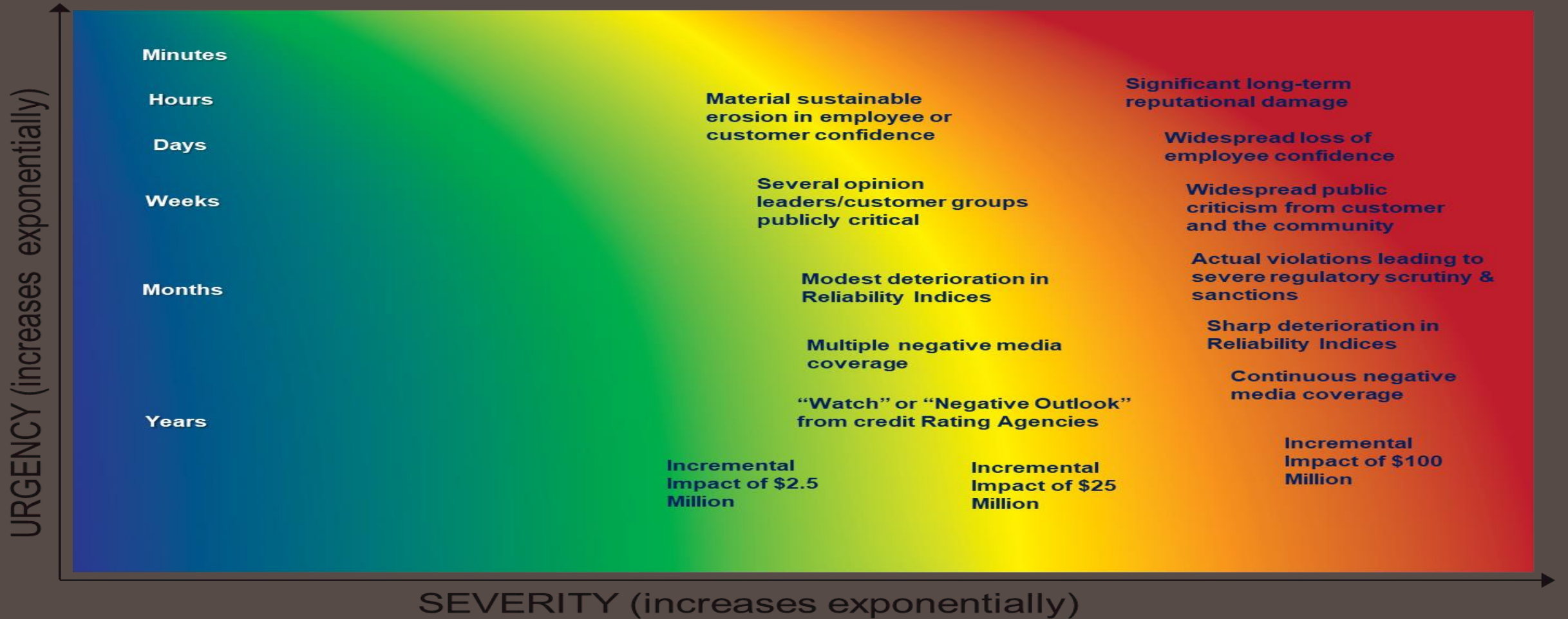
### External Risks

- Positively influence state and federal legislative and regulatory issues





# SMUD's Risk & Opportunity Heat Map



# Year-On-Year Risk Summary

Level of Residual Risk Exposure			Nov-18	Nov-19	Nov-20
	<b>Red</b>	Extremely High	0	0	0
	<b>Orange</b>	High	5	4	4
	<b>Yellow</b>	Medium	37	33	36
	<b>Green</b>	Low	38	40	38
	<b>Blue</b>	Extremely Low	0	0	0
<b>Total</b>			<b>80</b>	<b>77</b>	<b>78</b>