

## ENTERPRISE RISK MANAGEMENT *Panel*

### PAUL L. WALKER

*James J. Schiro/Zurich Chair in Enterprise Risk Management,  
Executive Director, Center for Excellence in ERM  
St. John's University*

### JANAIZE MARKLAND

*Director, Enterprise and Operational Risk & Insurance  
Pacific Gas and Electric Company*

### H. WAYNE SOZA

*Vice President, Compliance and Chief Risk Officer  
El Paso Electric Company*

2016 PHC



## ERM AND VALUE

- ERM adds value
  - 25%
- Duh!
- Adds value because it enables you to make better decisions
  - Gates, Nicolais, and Walker 2012 (MAQ Competitive Manuscript Award)

2016 PHC



## ERM TROUBLE

- ERM lawsuits
  - No or poor ERM process
  - Did not know risks
  - Did not assess risks
  - Did not communicate risks
  - Mis-communicated risk level (no risk assessment)
  - Did not manage risks

2016 PHC

Copyright: Dr. Paul L. Walker, St. John's Univ



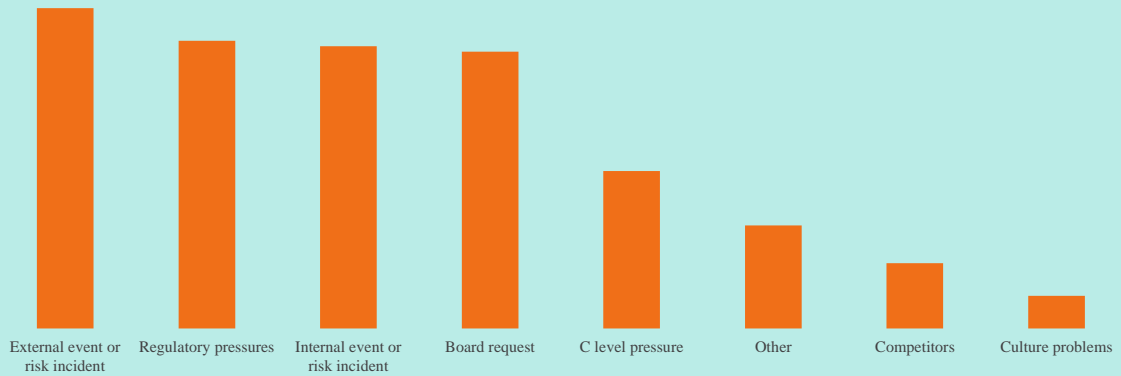
## FORMAL ERM PROCESS *or Initiative*

- 61% have a management level risk committee
- 71% have risk maps
- > 50% had recent risk surprises
- 51% do not require a risk analysis on major decisions
- 64% do not have a clear threshold on when to do a deep dive
- 43% do not view risks as opportunities
- 43% do not develop and communicate risk information timely

2016 PHC



## DRIVERS OF ERM *and Formal ERM*



2016 PHC



## AGENDA

- How do you get started in ERM and managing risk?
- What is the connection between insurance and ERM? What unique value does the insurance/risk mind bring to the ERM table?
- What are the key risks you see facing the industry?
- Once you get ERM going, how do we mature the process?
- How can we make ERM connect to strategy and innovation?

2016 PHC



### HOW DID EL PASO GET STARTED *in ERM and Managing Risk?*

- ERM program was an initiative directed by the Board of Directors and Executive Management
- Contracted with Deloitte to assist with the following
  - Define ERM office and function (what is our desired state?)
  - Identify a risk universe
  - Create a risk register
  - Establish risk assessment tools and techniques
  - Identify, assess, prioritize, and mitigate enterprise-risks

2016 PHC



### HOW DID PG&E GET STARTED *in Enterprise Risk?*

- Established in 2009
- Revamped in 2010 following San Bruno accident
  - Evaluated criticisms in independent review panel report
  - Engaged DNV to provide guidance on what “best in class risk management” looked like
  - Rolled out with themes: establish, integrate, quantify, refine
- We are now working towards our Vision 2020 & addressing evolving regulatory environment

2016 PHC



**WHAT IS THE CONNECTION** *Between Insurance and ERM?*

*What unique value does the insurance/risk mind bring to the ERM table?*

- Insurance is utilized as a financial risk transfer control
- Participate in the risk management process and use information to guide limits and coverages
- Risk management practices are then used to demonstrate to insurers that we are doing what we can to identify, respond to, and monitor our risks
- Loss event data can be utilized for risk identification, lessons learned, challenging assumptions, and developing preventive or detective controls

2016 PHC

**WHAT ARE THE KEY RISKS** *You See Facing the Industry?*

- Existing utility regulatory model
- Disruptive technologies
- Cybersecurity (data and grid protection)
- Aging workforce & talent retention
- Aging infrastructure
- Environmental regulations

2016 PHC



**EL PASO: ONCE WE GOT ERM GOING** *How Did We Mature the Process?*

- Demonstrated the value of risk assessment process
- Established credibility by showing up and putting words into actions
- Developed Risk Oversight Governance Committee
- Tailored framework to meet the needs of the organization
- Simplified tools and process according to our needs
- Assessed risk culture
- Remained flexible but focused on the goal
- Nurtured continuous improvement

2016 PHC

**PG&E: ONCE WE GOT ERM GOING** *How Did We Mature the Process?*

- Integration with existing budgeting, planning, and rate-setting processes
- Quantification, quantification, quantification
  - Risk tolerance
    - Alternatives analysis & risk spend efficiency
    - Portfolio optimization

2016 PHC



### HOW CAN WE MAKE ERM *Connect to Strategy and Innovation?*

- Provide input and integrate risk assessment results into the strategic planning process
- Align with the capital and budgeting process
- When identifying key strategic risks, analyze
  - strategic and budgeting initiatives
  - internal audit findings
  - business issues and challenges
  - operational and compliance risk factors
- Business model risk
- M&A activities

2016 PHC



### CULTURE

- Build a coalition
  - Create and establish relationships
- Involvement and buy-in
  - Involve the organization in the definition of the desired culture
  - Encourage the raising of issues and questioning from different perspectives
- Tone from the top
  - Leadership defines the culture by encouraging, discouraging and exhibiting certain behaviors
- Deliver something useful for business decision making

2016 PHC



## DISRUPTION

- Growing accessibility of new customer-sited technologies are enabling customers to challenge the natural monopoly of the utility grid
- Utility business models requires change however the biggest impediments are the existing regulatory model and the integration of these emerging technologies
- Ensuring reliability while minimizing costs will be a challenge when considering new technology integration and environmental policy
- New distributed technologies present potential new revenue opportunities however most are unsure of how best to benefit

2016 PHC



2016 PHC

