

BPA Policy 231-1

Enterprise Risk Management

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1. Purpose & Background

This policy establishes the Bonneville Power Administration's (BPA's) standards and requirements for managing risk systematically across the enterprise.

- A. **Vision:** BPA's risks are within acceptable tolerances through the application of a robust Enterprise Risk Management (ERM) program.
- B. **Philosophy for practicing ERM:** Managing risk is an integral part of good management. BPA is committed to embedding risk management into existing practices and business processes so that it becomes part of BPA's culture and is not viewed as an independent activity. Over time, this will allow everyone at BPA to be involved in the disciplined management of risk.

Practicing ERM is a strategic business discipline that supports the achievement of an organization's objectives. As a strategic discipline, ERM is intended to address BPA's full spectrum of risks across the enterprise and to manage the impacts of those risks as an interrelated risk portfolio. As a business discipline, ERM provides the principles, framework, and process for managing risk and seeks to embed these disciplined activities into existing BPA business processes. ERM is also viewed as a part of the overall governance process, as reflected in OMB Circular A-123.

BPA is committed to practicing ERM to:

- 1. Increase the likelihood of successfully achieving its vision, mission, goals, and objectives;
 - 2. Minimize unanticipated and unwanted outcomes;
 - 3. Better assess risks associated with changes in its environment; and
 - 4. Provide reasonable assurance to customers and other stakeholders that BPA is properly managing its risks.
- C. **ERM program goals:** This policy recognizes and serves to support BPA's established risk management goals (long-term aims).
 - 1. BPA's strategic objectives are clearly defined, measurable, and reflect BPA's risk tolerance.
 - 2. Risk with enterprise-wide scope or impact are identified and addressed through a consistent and disciplined process.
 - 3. Emerging risks to BPA objectives are dynamically identified and managed.
 - 4. Decisions and policy are based on a complete and shared understanding of objectives and a robust consideration of risks to delivering on, and alternative means for achieving, those objectives.

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- 5. Consistent and disciplined consideration and treatment of risk in day-to-day operations; risk management is a visible and integral part of BPA culture.
- D. **Additional guidance:** For each of the broader BPA risk management goals, ERM has defined more specific and measurable objectives to define the end result of ERM processes, projects, and activities.

2. Policy Owner

The Executive Vice President (EVP) of Compliance, Audit, Risk Management and Equal Employment Opportunity, who is the Chief Risk Officer, or their designee, owns this policy and has overall responsibility for its implementation and proposing revisions.

3. Applicability

Risk management practices and standards expressed in this policy apply to all BPA strategy setting, decision-making, and operational activities.

4. Terms & Definitions

- A. **Risk:** The effect of uncertainty on achievement of objectives. An effect is a deviation from the expected – positive and/or negative. Risk is often expressed in terms of a combination of the consequences of an event (including changes in circumstances) and the associated likelihood of occurrence.
- B. **Risk assessment:** The overall process of risk identification, risk analysis, and risk evaluation.
- C. **Risk tolerance:** The measure of the level of risk which an individual or company is willing to accept without further treatment.
- D. **Risk-informed:** BPA uses this term to mean the following elements are present in a process, activity, project, etc.: 1) use of a logical and systematic process; 2) common understanding of objectives and context; 3) robust consideration of risks to achievement of objectives; 4) identified risks are addressed consistent with BPA risk tolerance; and 5) consideration of a broad set of alternatives using a consistent set of criteria.
- E. **Enterprise Risk Management (ERM):** A strategic business discipline that supports the achievement of an organization’s objectives by addressing the full spectrum of its risks and managing the combined impact of those risks as an interrelated risk portfolio. ERM provides a disciplined process for managing risk and seeks to embed this discipline in existing business processes.
- F. **Corrective Action Program (CAP):** The combination of the internal policies, procedures, tools, and staff resources that support consistent investigation of significant events,

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identification and validation of causes, development of corrective actions, tracking of implementation, and verification of effectiveness of those corrective actions.

- G. **Root Cause Analysis:** The application of a structured process and analysis methods used to determine the source or origin of causal factors that, if corrected, will prevent recurrence.

5. Policy

- A. **Strategic direction:** BPA’s mission, vision, and core values drive its long-term strategy. This strategy is realized by meeting BPA’s long-term strategic objectives. Strategic objectives set the foundation for BPA’s ERM efforts since risk management is geared towards managing the risks that could impact BPA objectives. BPA sets its strategic objectives and manages risk in accordance with the following principles:
 1. BPA establishes its strategic business objectives in a risk-informed manner.
 2. BPA establishes the process and methodology that defines how the strategic objectives will be translated to and implemented in the primary business lines in a risk-informed manner.
 3. BPA establishes measurable organizational performance targets that are risk-informed and define what it means to be successful in achieving its strategic business objectives.
 4. BPA constantly evaluates its tolerance for failing to deliver on its strategic business objectives (i.e., BPA’s risk tolerance).
- B. **BPA risk tolerance:** BPA manages its risks by establishing acceptable bounds that are intended to assure the cost effectiveness of its resources and programs. An explicit discussion of risks and risk tolerance is part of BPA’s decision-making process.
- C. **Risk-informed decision-making & operations:** Rigorous, risk-informed decision-making is critical to BPA’s success. The Agency Decision Framework (ADF), capital investment strategies, plans, business cases, strategy execution plans, and strategy infrastructure are the principle means to integrate and document risk management into decision-making. These tools reflect the application of the principles in the BPA risk management process. Refer to *Authorities & References* for more information. BPA employees are expected to conduct their work and make decisions in a risk-informed manner.

Organizational units embed the principles of the risk management process into their business operations and processes to assist them in effectively managing the risks that have a material impact on their objectives. Organizational units establish risk thresholds in consultation with ERM staff as needed.
- D. **Best Practices:** As part of BPA’s dedication to operational excellence, BPA maintains ongoing awareness of evolving best practices connected with enterprise risk

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management, and invests in ERM-related governance and business processes to a degree that is fiscally and operationally prudent.

- E. **Corrective Action Program (CAP):** This program ensures that responsible BPA organizations effectively analyze root causes and implement corrective actions for events having the most significant impacts on BPA’s mission, vision, or core values. The CAP is an enterprise-level resource that provides guidance, training, and assistance to groups within BPA that are addressing significant events. The implementation of the CAP supports BPA’s risk management philosophy by treating significant risks through the reduction of the consequences and/or likelihood of those events happening again.

6. Policy Exceptions

The Corrective Action Program will not lead investigative activities where:

- A. Personal injury or loss of life occurred. The Safety organization will lead these incident assessments.
- B. Suspected violations of criminal law occurred. Security will facilitate any necessary coordination with appropriate law enforcement entities, and the Office of General Counsel will coordinate any necessary legal response activities for these types of incidents.

ERM resources will provide support in these instances if requested to do so.

7. Responsibilities

Key roles and responsibilities for supporting BPA’s ERM approach are:

- A. **Executive Vice President, Compliance, Audit, Risk Management and Equal Employment Opportunity:** Serves as the BPA Chief Risk Officer, approves risk management policies, and identifies top enterprise risks.
- B. **Enterprise Board (EB):** Establishes alignment around strategy, prioritization, communication, and oversight of execution on BPA’s most important strategic issues. Additionally, the EB oversees four primary subcommittees including the Audit, Compliance & Governance Committee (ACGC). The ACGC oversees most of the day-to-day management, and the EB examines ERM issues at the EB’s discretion.
- C. **Management Committees:** BPA’s four primary enterprise-level decision-making bodies are: Finance Committee (FC); ACGC; Executive Safety Committee (ESC); and BPA Security and Continuity Committee. These committees and Business Unit Management Committees (MCs) are responsible for ensuring that decisions made in these forums are risk-informed and that staff uses accepted BPA methodologies for assessing risks.
- D. **Risk Oversight Committee:** Is responsible for oversight of risks associated with BPA’s commercial transaction activity, ensuring that a rigorous, coordinated approach to

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assess and respond to such risks is in place, including use of monitoring systems and limits to manage such risks.

- E. **Audit, Compliance, & Governance Committee (ACGC):** Is responsible for ensuring that ERM program management activities are being performed consistent with established risk management policy. This includes the oversight and administration of the CAP.
- F. **Enterprise Risk Management Manager (ERM Manager):** Reports to the EVP of Compliance, Audit, Risk Management and Equal Employment Opportunity, and is responsible for ensuring consistent implementation of BPA’s ERM program throughout BPA. The ERM Manager develops, administers, and helps interpret ERM policy. The ERM Manager is responsible for the development, maintenance, and implementation of the CAP at BPA.
- G. **ERM Staff:** Conducts/facilitates risk assessments on key strategies, major projects, and initiatives. The staff assists employees and managers through risk management training and consultation. The staff also develops, administers, and supports implementation of ERM policy. An ERM staff member with training in root cause analysis will be the team lead for all root cause analyses and development of corrective action plans.
- H. **Internal Audit:** Coordinates with the ERM function to design and perform assurance audits to verify the level of BPA’s compliance with this policy, and associated risk management and CAP-related processes and procedures. Internal Audit can also provide other audit services that support ERM, including periodically determining the effectiveness of risk management activities across BPA and generally promoting greater risk management awareness.
- I. **Governance and Internal Control:** Coordinates with the ERM function and management to select and develop entity-level controls and control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- J. **All Employees:** Effectively managing risk is the responsibility of all BPA employees. Employees are required to report events that may require corrective actions. All executives, managers, and staff have an important role in managing risk across the enterprise. They are expected to make and support risk-informed decisions and remain vigilant in watching for emerging risk issues that could jeopardize BPA’s success. To the extent that any employee becomes aware of what appears to be a significant risk-related issue or an event that may require a corrective action, the employee should notify his or her supervisor so that appropriate action may be taken.

8. Standards & Procedures

BPA’s disciplined approach to risk management is iterative, scalable, and includes the steps below. Consistent application of this process enables continuous improvement in decision-making and performance. Refer to *Authorities & References* for a more detailed explanation of the risk management process.

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- A. **Communication and dialog:** Communication and dialog with internal and, as appropriate, external stakeholders as much as necessary takes place at each stage of the risk management process.
- B. **Establishing the context:** This defines the internal, external, and risk parameters to take into account when managing risk, and setting the scope and risk criteria for the remaining process.
- C. **Risk identification:** The purpose of this step is to generate a comprehensive list of risks based on those events that might enhance, prevent, degrade, or delay the achievement of the objectives.
- D. **Risk analysis:** Risk analysis is about developing an understanding of the risk by considering the causes and sources of risk, their positive and negative consequences, and the likelihood that those consequences can occur. Existing risk controls and their effectiveness should be taken into account.
- E. **Risk evaluation:** The purpose of risk evaluation is to assist in making decisions based on the outcomes of risk analysis about which risks need treatment, and to prioritize treatment implementation for those unacceptable risks (i.e. those that exceed risk tolerance).
- F. **Risk treatment:** This involves selecting one or more options for modifying unacceptable risks and implementing those options. Risk treatment options include: avoiding the risk, seeking out an opportunity, removing the source of risk, changing the likelihood, changing the consequence, sharing the risk with another party, and retaining the risk by choice.
- G. **Monitoring and Review:** Encompasses all aspects of the risk management process to:
 1. Analyze and learn lessons from events, changes, and trends.
 2. Detect changes in the external and internal context including changes to the risk itself.
 3. Ensure that risk controls and treatment measures are effective in both design and operation.
 4. Identify emerging risks.

9. Performance & Monitoring

BPA’s Internal Audit department designs and conducts, or arranges for outside specialists to conduct, audits and assessments of BPA’s compliance with this policy and associated procedures. The results of the audit or assessment are presented to the EB and reported to the Administrator.

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10. Authorities & References

- A. ISO 31000, *Risk Management – Guidelines* (2018)
- B. Standards published to BPA Connection Agency Decision Framework site
 1. BPA Likelihood and Impact Scales
 2. BPA Business Risk Framework
 3. BPA Business Risk Inventory
- C. BPA internal policies
 1. BPA Policy 231-2, *Power Transacting Risk Management* (2019)
 2. BPA Policy 231-3, *Transmission Transacting Risk Management* (2015)
 3. BPA Policy 231-4, *Transmission Credit Risk Management* (2016)
 4. BPA Policy 231-5, *Interest Rate Hedging* (2015)
 5. BPA Policy 460-1, *Asset Management* (2018)
- D. OMB Circular A-123 Appendix A, *Management of Reporting and Data Integrity Risk* (2018)
- E. BPA, *Corrective Action Program Guide* (July 2020) (published to BPA Corrective Action Program site)

11. Review

This policy is scheduled for review in 2025.

12. Revision History

Version Number	Issue Date	Brief Description of Change or Review
1.0	8/26/2015	Migration of content to new policy format.
2.0	10/13/2020	<ul style="list-style-type: none"> • Updated the description of executive oversight over ERM. • Clarified the ERM standard adopted by the BPA. • Clarified the standard for application of root cause analysis. • Generally restructured previous content to reflect the current policy content standard.

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