



Energy for
generations

Risk Management: Process and Culture in ESB

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ESB's Risk Profile



ESB Overview: Vertically Integrated Utility



- Overview: Established 1927, Vertically Integrated, 95% owned by Irish State, Commercial Mandate
- Networks: Electricity Transmission and Distribution Networks in both the Republic of Ireland (ESB Networks) and Northern Ireland (NIE Networks)
- Generation: All-Island Capacity of 4.4GW, GB Capacity of 1.2GW
- Electricity and Gas Supply: 1.3M retail customers served on an All-Island basis (Electric Ireland)
- Innovation: ESBI, Smart Grids, e-cars, R&D Programmes

Since 2000, competition has been transformational

Other Generators



Interconnectors



ESB Generation

Generation Market



ESB Networks

Transmission System

Distribution System



Regulated & Ringfenced Networks

Customers eligible to choose their Supplier



Others



Retail Market

Power Sector Uncertainties

Fuel prices



- New sources -vs- demand from emerging economies?
- Geopolitical - Middle East

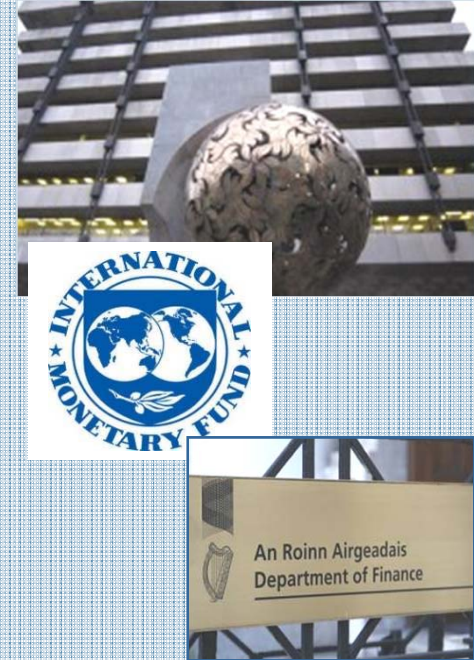


Policy & Regulation



- Decarbonisation – how achieved?
- Inconsistent policy targets?
- Markets vs. Regulation?

Financial / economic



- Funding?
- Long-term GDP growth?

ESB Group – Diverse Risk Profile



Regulation



Competition



Capital Intensive

Locations

Trading

**Critical
Infrastructure**

7,992 Staff

Risk Management Process

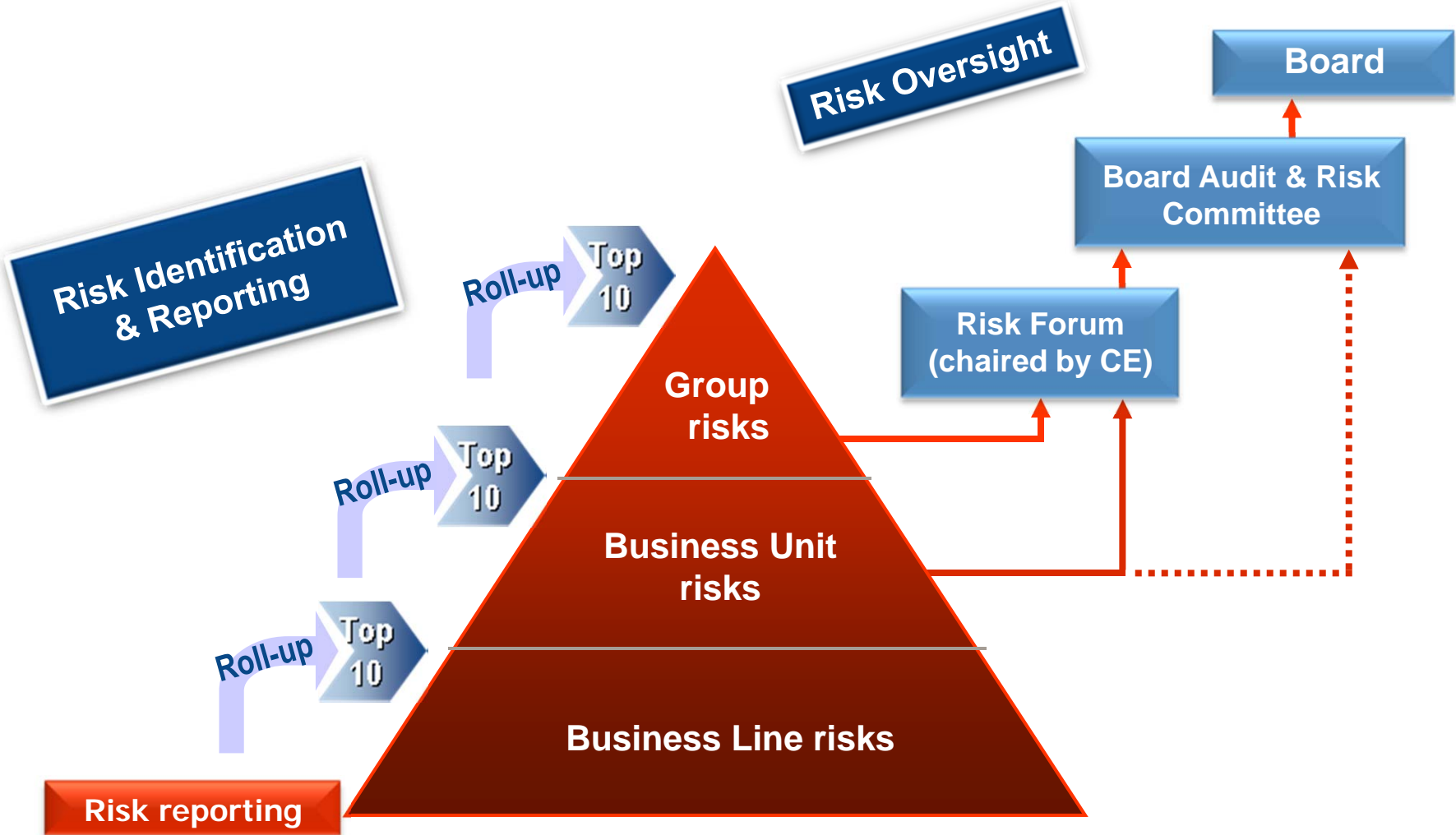


- **Policy Objectives**
 - Manage risk to a level acceptable to the Board
 - Maximise the achievement of our business objectives by managing risks (and anticipating opportunities) across the Group
 - Ensure the fundamentals of good risk management are incorporated into decision making at all levels of the organisation
- **Policy reviewed annually – updated this year to reflect new Corporate Strategy & Risk Appetite Statement**
- **Enterprise Risk Management (ERM) Framework has been adopted to implement the policy**
 - Takes a broad view of risk

Risk Management Framework



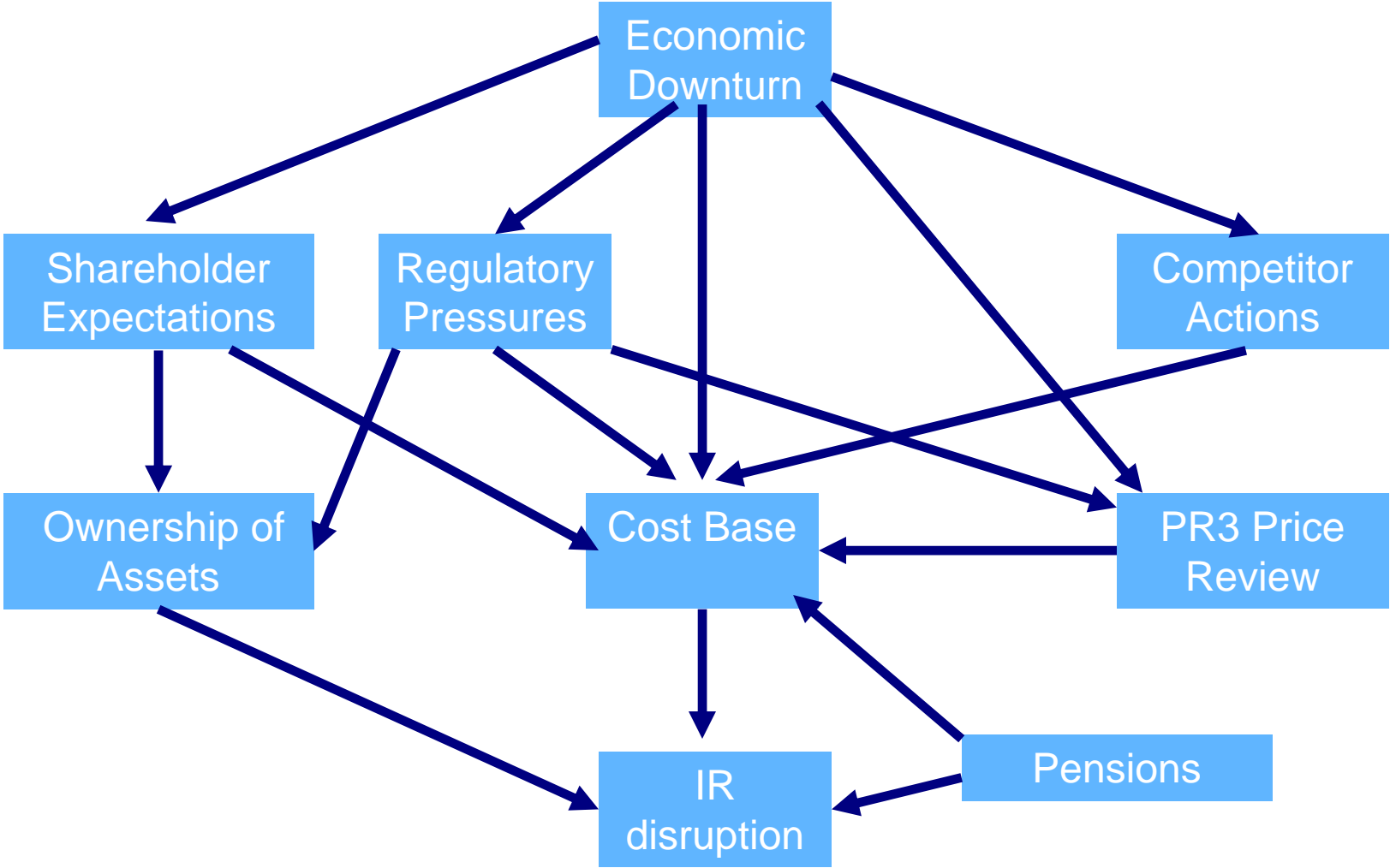
ERM applies at all levels of ESB Group



HILPs & Key Risks



Interconnected Risks

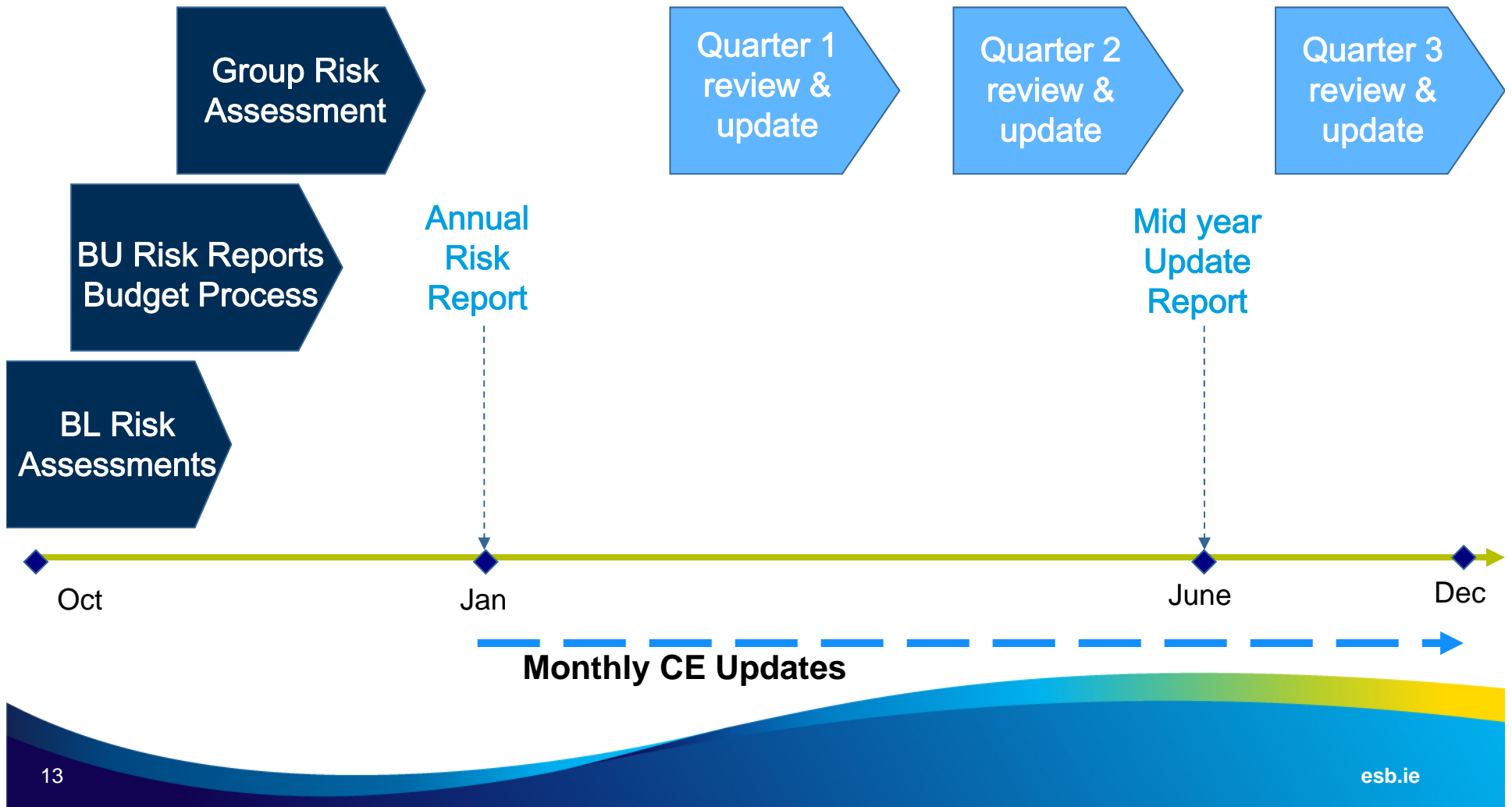


Identifying & prioritising risk - an ongoing process



Annual risk assessment

Quarterly risk reviews



Risk Management Culture in ESB



- **Highly prudent**
 - Regulated, State Owned ,Utility
 - Appetite varies between businesses
- **Company values underpin our approach to risk**
 - ESB's Values Statement “**FIRST**”
 - Codes of Practice
 - Zero tolerance practices
- **Strong control culture**
 - Insure risks where appropriate
- **Responsibility for managing risk clearly allocated to individuals at all levels**
 - Clarity in relation to strategy and financial goals
 - Decision making informed by proper risk analysis

- **Sets the tone at the top - risk always on agenda**
- **Very proactive in seeking to assure themselves on the risk and control culture**
- **Focus on strategically significant risks and external developments**
 - Primary responsibility for development of corporate strategy
 - Assessing the risks inherent to achieving company strategies
 - Agree on risk appetite and tolerance for individual key risks
- **Role of Chairman – value of discussion**
- **Value of new board members perspectives**

- **Supports the Board in monitoring and reviewing the effectiveness of risk management and control systems**
- **Challenge the received wisdom**
- **Visit the “shop floor” – see how risk awareness is embedded for themselves**
- **“Skip” Briefings – meet with Business Units directly**
- **Joint Committee initiatives: A&RC and Regulation**
- **Propose specific topics for management consideration**

- **Implements Board policies on risk and control using effective processes and procedures**
- **Culture of trust, openness and transparency with the Board and Audit & Risk Committee**
- **Clarity regarding roles and responsibilities**
- **Executive Committee scrutinises detailed risk reports from the Businesses**
- **Quality of Reporting to the Board and Investors**
- **Crisis Management leadership**

- **Risk Management is about controlling risk to help the business flourish rather than eliminating it**
- **Culture of openness and trust essential to well functioning ERM**
- **Independent Review (2011)**
 - “The current level of oversight, in terms of tone at the top, Board & Audit Committee involvement, level of monitoring and frequency of reporting is at advanced/leading practice ...” (June 2011, para 1.3)