Enterprise Risk Management
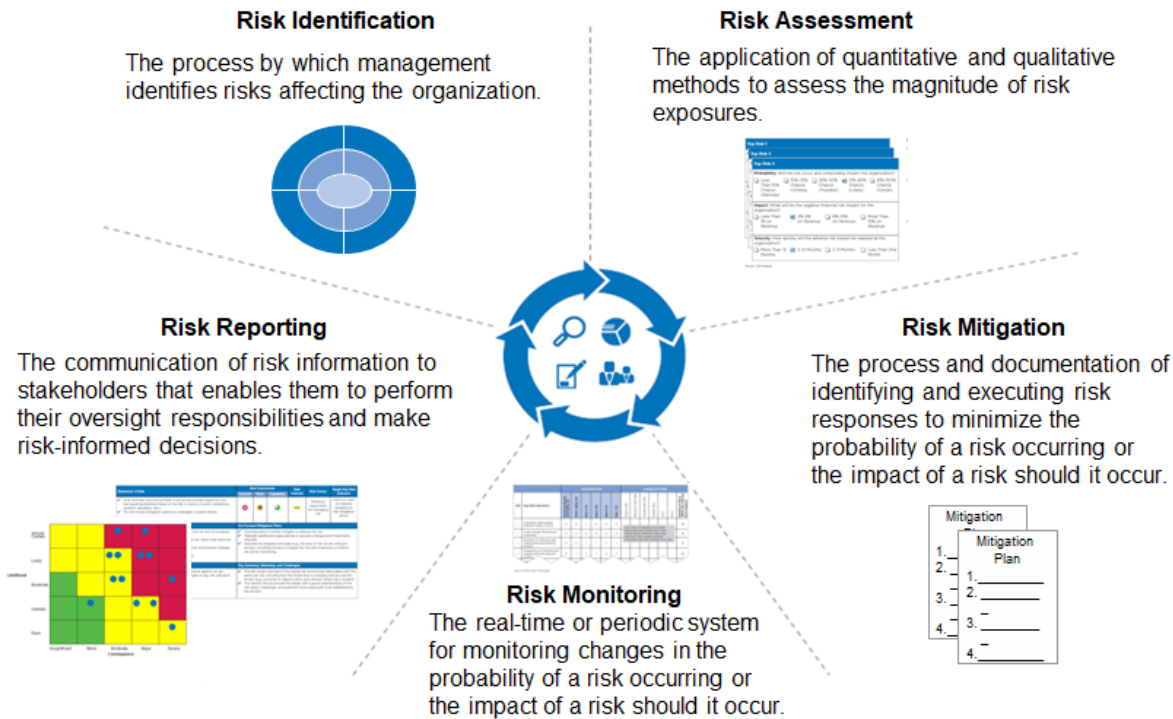
October 6, 2022 – Santiago, Chile

Agenda

1. Enterprise Risk Management Overview
2. ATCO – Risk and Audit Committee role
3. ATCO/CU ERM Process
4. Risk Matrix Overview
5. Stewardship Reporting
6. Outcomes to High Risks
7. Other Peer Group Challenges & Actions
8. Continued Challenges
9. Additional Engagement
10. Contact details for future questions

ERM Process Overview

Enterprise Risk Management (ERM) is the process of identifying and addressing potential risks using a consistent, repeatable process, to allow for the achievement of strategic objectives or potential opportunities. The process includes identification, assessing, monitoring, reporting and responding to risks. It standardizes a common risk language.

Risk Identification

The process by which management identifies risks affecting the organization.

Risk Assessment

The application of quantitative and qualitative methods to assess the magnitude of risk exposures.

Risk Reporting

The communication of risk information to stakeholders that enables them to perform their oversight responsibilities and make risk-informed decisions.

Risk Mitigation

The process and documentation of identifying and executing risk responses to minimize the probability of a risk occurring or the impact of a risk should it occur.

Risk Monitoring

The real-time or periodic system for monitoring changes in the probability of a risk occurring or the impact of a risk should it occur.

Enterprise Risk Management Program Management

ERM Functional Management

ERM Policy and Governance

Risk Coordination

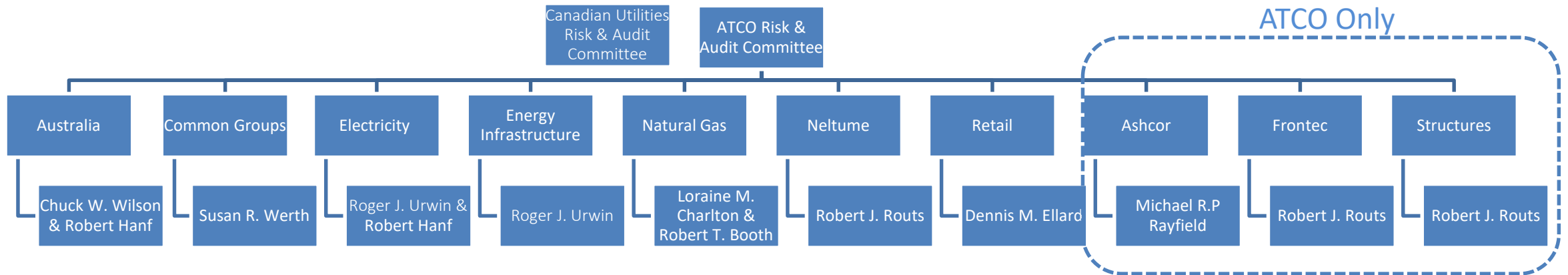Risk Culture

Risk and Strategy

Source: Gartner
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Gartner.

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ATCO/Canadian Utilities (CU) Risk & Audit Committee

Each business unit is assigned a designated audit director ("DAD")

DAD meets with business unit to understand exposure – reports directly back to audit and risk committee
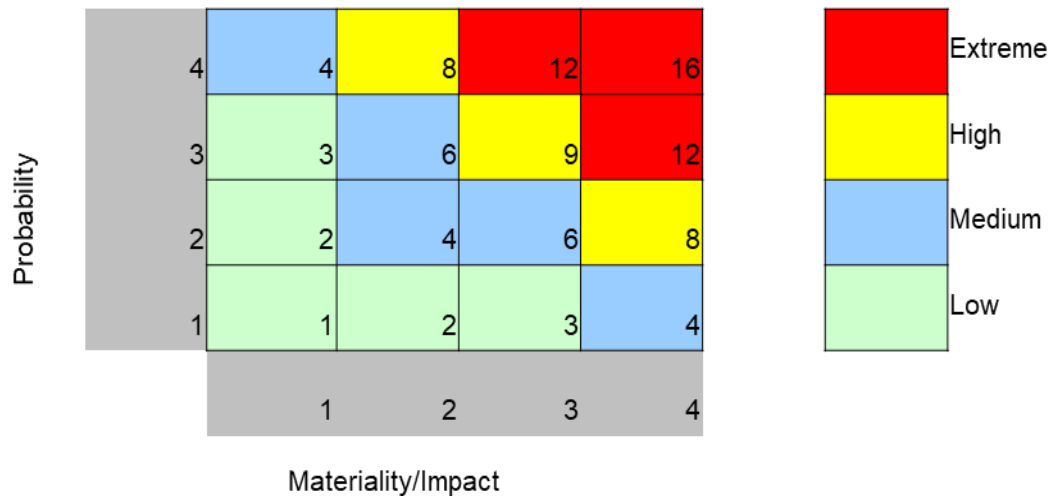
Canadian Utilities Risk & Audit Committee	ATCO Risk & Audit Committee		ATCO Only

Australia	Common Groups	Electricity	Energy Infrastructure	Natural Gas	Neltume	Retail	Ashcor	Frontec	Structures
Chuck W. Wilson & Robert Hanf	Susan R. Werth	Roger J. Urwin & Robert Hanf	Roger J. Urwin	Loraine M. Charlton & Robert T. Booth	Robert J. Routs	Dennis M. Ellard	Michael R.P Rayfield	Robert J. Routs	Robert J. Routs

ATCO/CU ERM Process

Business Unit updates Register and defines top risks

DAD independently reviews risks and mitigations, makes recommendations and adjusts if required

Top risks of company consolidated by common groups Risk team

DAD and Risk team reports to Risk & Audit Committee Meetings

Risk & Audit Committee reviews risks and directs deep dive topics

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Risk Matrix Overview

Assessment Matrix

Probability				
4	4	8	12	16
3	3	6	9	12
2	2	4	6	8
1	1	2	3	4
	1	2	3	4

Materiality/Impact

- Extreme
- High
- Medium
- Low

	PROBABILITY			
Rating Descriptor	1- Rare	2 - Unlikely	3 - Likely	4 - Definitely
Frequency or approximate probability	Event is possible but likelihood is very low; <5% chance of occurrence; rarely or never happens in the company and/or industry	Somewhat unlikely to occur; 5%-40% chance of occurrence; has happened in the company and/or industry	Somewhat likely to occur; 40%-90% chance of occurrence; happens frequently in the company and/or industry	Event is likely to occur/imminent; 90% chance of occurrence; occurs commonly in the company and/or industry

	MATERIALITY/IMPACT			
Rating Descriptor	1 - Insignificant	2 - Minor	3 - Significant	4 - Severe/Catastrophic
Health & Safety and Environment	Little to no impact on employee or community health or safety; little to no impact on environment	Low to moderate impact on employee or community health or safety; low to moderate impact on environment	Moderate to high impact with employee or community injury possible; Localized major environmental consequence	High impact, employee or community fatality possible; Extended significant environmental consequence
Financial (% of Earnings)	(<1%)	(1% -5%)	(5%-10%)	(>10%)
Operational Excellence	Small operational inefficiency	Moderate operational issue in size and duration	Significant, sustained operational issue	Widespread or long term shut down of services
Reputational	Little to no impact to corporate reputation	Low to moderate impact to corporate reputation	Moderate to high impact/damage to corporate reputation	High impact/significant damage to corporate reputation
Legal/Compliance Liability - lawsuits, non compliance	Infraction of legislation with limited penalties	Major infraction with penalties	Major violation with high penalties and high profile	Multiple major violations, public enquiry, high profile
Media attention	Limited attention by media	Local media coverage; fielding media questions	Provincial media coverage; external agency enquiry	National coverage; external agency investigation

- ➢ 4x4 matrix used
- ➢ Risks are rated pre and post mitigations
- ➢ The upper right quadrant of 'extreme' and 'high risks' are identified and referred to as "actionable"

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Stewardship Reports

- Biannual reporting of incidents involving significant categories

- Trend analysis and stop light chart reporting

- Benchmarking Health & Safety performance metrics to industry (i.e. Lost Time Frequency ("LTIF"), Total Recordable Injury Frequency ("TRIF") etc.

- Deep dive requests for further information and mitigations to increasing trends

ATCO Ltd.
Stewardship Report Summary Ratings Chart
As at December 31, 2021

	Electricity	Natural Gas	Energy Infrastructure	ATCO Australia	ATCOenergy	Structures	Frontec	Ashcor	Corporate & Common Groups
Employee – Lost Time Injury Frequency	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Contractor – Lost Time Injury Frequency	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Employee – Total Recordable Incident Frequency	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Employee – Lost Time Severity Rate	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Vehicle Incident Frequency	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Environment – Total Reportable Incidents	🟡	🟢	🟢	🟢	🟢	🟢	🟢	🟢	n/a
Environment – Significant Incidents	🟡	🟢	🟢	🟢	🟢	🟢	🟢	🟢	n/a
Security	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Code of Ethics	🟡	🟢	🟢	🟢	🟢	🟡	🟢	🟢	🟢
Affiliate Code of Conduct	🟡	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Privacy	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Anti-Bribery & Anti-Corruption	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Code of Conduct (Electric and Gas)	🟢	🟢	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Ratings 🟢 Decreased or No Incidents / Frequency 🟡 Similar Incidents / Frequency 🔴 Material Increase Incidents / Frequency

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ATCO Outcomes to High Risks

Health & Safety Deep Dive (October 2021)

- Risk & Audit committee requested a 'deep dive' of the health & safety exposures across business lines
- The deep dive consisted of a fulsome review of safety practices including identifying specific extreme/high exposure areas, mitigations, benchmarking against peers, and recommendations for further measures

Excerpt from deep dive of recommendations to further enhance safety culture

RECOMMENDATIONS

ATCO represents a positive culture towards health and safety performance.

Recommendations to assist in further progression of our safety culture to drive long term, sustainable improvement in health and safety performance:

- Safety as a 5th ATCO Value
- Defined ATCO Standard to be minimum safety standard regardless of jurisdiction
- Establish minimum standard of safety policies and controls
- Consider establishing the minimum level of Health and Safety cultural maturity for all the business units to be in the "Proactive" state

ATCO Outcomes to High Risks

Environmental - Oil Release & Transformer Damage (December 2020)
- A string of theft and vandalism events prompted the Risk & Audit committee to request additional information and mitigations
- Copper theft and the resulting transformer damage and oil release caused an increase to events reported to the committee
- The increase of events were thought to be triggered by the pandemic and resulting economic impact

Mitigations presented to the Risk & Audit Committee

Mitigation
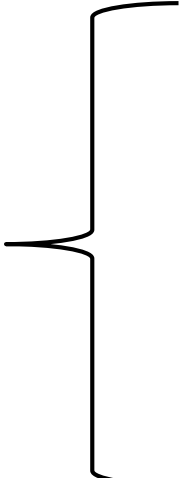
- Installation of cameras, CCTV or trail cams
- Remove transformers at inactive sites
- Create a salvage project to remove unused assets in high risk locations
- Get Security to investigate who is selling Copper to the dealers? Work with RCMP to track down culprits

ATCO Outcomes to High Risks

<u>Environmental Deep Dive – Wildfire Risk (December 2019)</u>
- A discussion in the Risk & Audit committee meeting of the rise of wildfires in California prompted the committee to ask for a deep dive of wildfire risk to assets within the electricity utility and the associated liability risk
- A fulsome assessment of Wildfire mitigations, practices and programs, regulation and legal review, and a comparison to peer groups was provided

Further action resulting from deep dive

- Reduction in tree-caused powerline fires
  - 2018: <u>Off-ROW</u> trees: 28 (down from ~60/yr. in 2010) of 1,157 fires in Alberta
  - Other Causes (2018): 106 Wildlife, Equipment Caused, third party incidents
  - Fire response:
    - Majority typically locally contained
    - Investigated in collaboration with local Forest Officers, if required.

- On-going due diligence… raising the bar
  - Technology: Increased use of LiDAR to improve patrol data
  - Widening of ROWs: seek approval from GOA
  - Grid Hardening / Engineering solution (e.g. Composite cross-arms, covered-conductor, Wildlife cover-ups, fire resistant poles)
  - Increased use of herbicide
 - Increased peer benchmarking / sharing of best practice

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ATCO Outcomes to High Risks

Utility Franchise Risk Deep Dive (October 2021)

- The Hay River Franchise termination prompted the Risk & Audit committee to request a deep dive of franchise risk exposures in the utility business
- A judicial review of the termination was conducted by outside legal
- A risk assessment methodology was developed to rank top franchises on risk and impact to the business
- Mitigation strategies were developed to reduce exposure

Risk Scoring Electric Utility Franchises

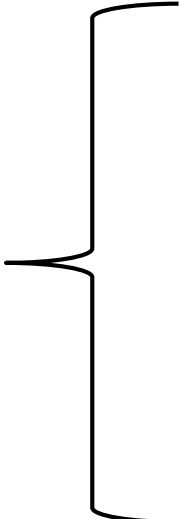| Rank	Franchise / Community	Probability	Materiality	Risk Score	Annual Imapct to Earnings (000"s)
1	Fort McMurray	2	2	4	$6,270
2	Grande Prairie	2	2	4	$4,346
3	Lloydminster	2	1	2	$2,151
4	Cold Lake	2	1	2	$973
5	Peace River	2	1	2	$836
6	Vegreville	2	1	2	$451
7	Two Hills	2	1	2	$74
8	Slave Lake	1	1	1	$1,121
9	Drumheller	1	1	1	$879
10	Hamlet of Grande Cache	1	1	1	$602
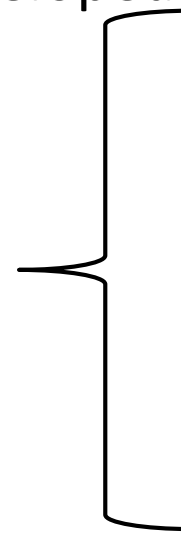
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ATCO Outcomes to High Risks

Cyber Risk (Ongoing)

- Global events are accelerating cyber risks
- New techniques to attack critical infrastructure are being shared among bad actors
- All techniques are being exploited to fund for-profit hacking operations

Mitigations presented to the Risk & Audit Committee

- Purchase of Cyber insurance policy
- Formalized threat intelligence sharing with national security services
- Reporting incidents and mitigation strategy to Risk & Audit Committee every 6 months
- Regular employee training
- Continuous improvements implemented according to the Cybersecurity Strategy

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LUMA Outcomes to High Risks

Crisis Management Program (September 2022)
- Our ability to respond to a disaster event will be how we are continuously judged and will either help to improve the public perception of LUMA and help to mitigate the risk or vice versa.
- Ensure critical business functions have recovery plans to ensure their recovery time can be achieved; assess how critical business functions can be modified to support disaster response

Mitigations presented to the Executive

- ✓ Continuously improve the Emergency Response Plan, develop/deliver refresher training and conduct exercises to validate resources are prepared to execute the plan.
- ✓ Implement software systems to automate and simplify emergency communications, response planning, and damage assessment.
- ✓ Reconstruct and modernize physical location of Emergency Operations Center to ensure flexibility and practicality for varying magnitudes and types of emergency events.
- ✓ Coordinate an internal Emergency Response Plan exercise for key member of the Emergency Operations Center.

LUMA

Other Peer Group Challenges & Actions

Risk: Employee safety risk
Actionable items: Enhanced safety equipment, increased employee training, increased analysis on injury reports to identify trends

Risk: Environmental risk (spilling and pollution)
Actionable items: Review past incidents to improve current processes and procedures, develop metrics to track environmental risks, work with outside consultants to reduce environmental risks

Risk: Business continuity risk
Actionable items: Enhanced BCP planning, creation of a BCP committee, additional BCP drills, purchase of BCP-related equipment (generators, fire suppression systems, etc.)

Risk: Climate risk
Actionable items: Develop methods to measure your organization's carbon footprint, develop methods to track and disclose climate information, understand investors' and stakeholders' expectations around the tracking and disclosure of climate data

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Benefits & Challenges (continued...)

Risk: Failure to attract and retain talent
Actionable items: Employee satisfaction surveys, compensation research and benchmark analysis, new techniques for finding employees (career fairs, Indeed, LinkedIn, employee referral programs, etc.), re-evaluation of remote/flexible working guidelines

Risk: Poor customer satisfaction
Actionable items: Develop a NPS (net promotor score) program, customer satisfaction surveys, consistent social media scans, mandatory customer follow up for bad reviews

Risk: Poor or insufficient marketing risk
Actionable items: Increased use of analytics to determine marketing campaign benefits, re-evaluation of marketing spend, adjustment of branding techniques

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Continued Challenges

- Developing a culture of risk
- Consolidation across business lines
- Consistency in valuation of risk
- Understanding Corporate risk tolerances
- Impact of emerging risks

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Additional Engagement

One **ATCO** Risk Working Group

- Risk Professionals across ATCO
- Meets quarterly
- Demonstrates commitment to risk culture
- Creates consistency (i.e., risk matrix, risk tolerance)
- Current initiatives
  - Emerging Risk Survey
  - Sharing of materials

Additional Engagement

Gartner

- ➤ Subscription service
- ➤ Expert Advice
- ➤ Tools to develop risk programs (i.e. Risk Register Template, Emerging Risk Survey, Develop Risk Committees)
- ➤ Connect with Peers

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$4B
We are a $4.7 billion company and a member of the S&P 500.

100+
We work with businesses in more than 100 countries.

~16,600
We have nearly 16,600 associates in more than 90 offices globally.

40+
Over 40 years providing insights and expert guidance to client enterprises worldwide.

ATCO

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Thank you