



# **Trends in Electric Utility Risk Management**

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# Overview

- Background
- Trends by Risk Focus Area
- ERM – Is it here to stay? How is it being done well?
- Utilities of the Future and Risk Management

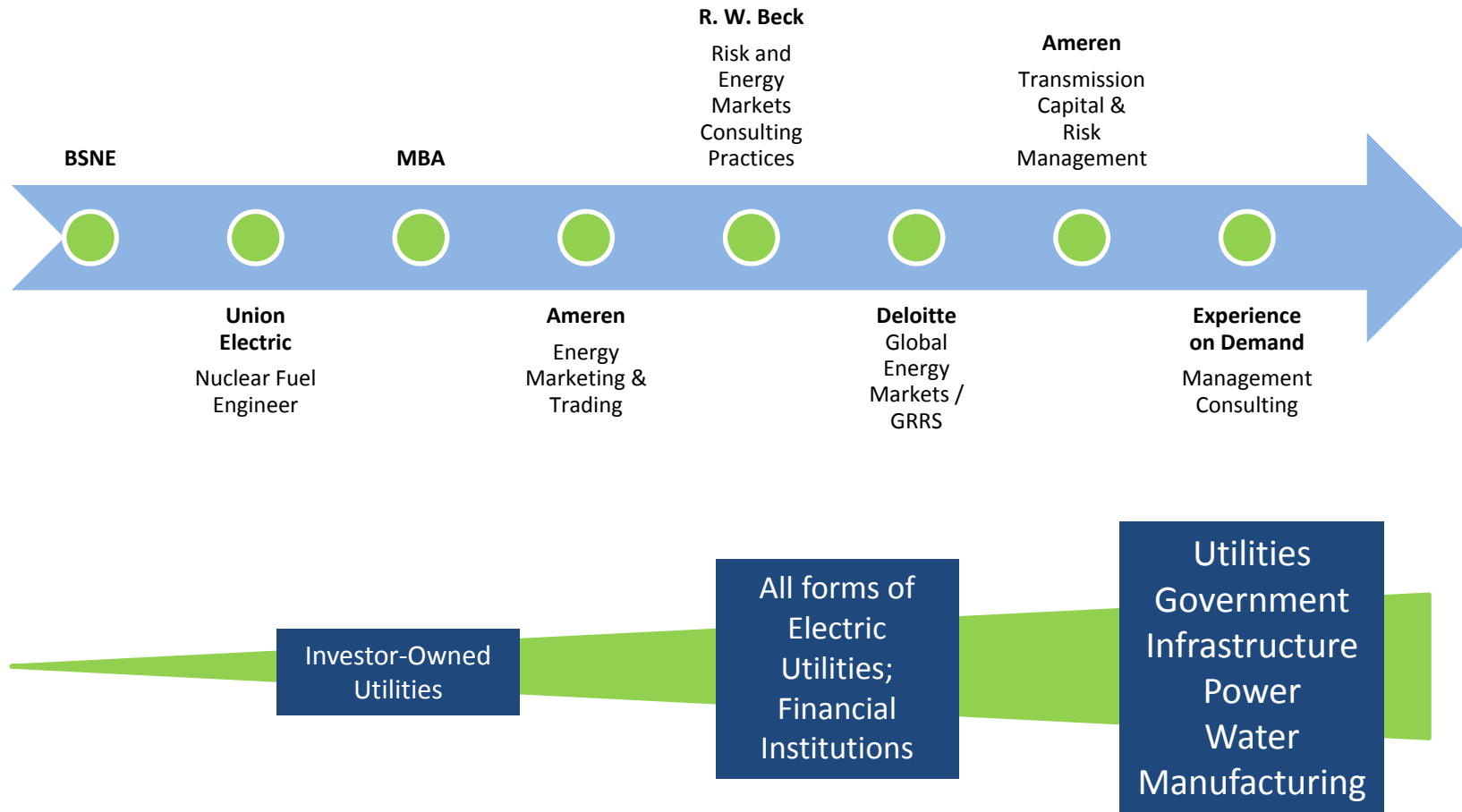
# Experience on Demand

Experience  
on Demand

- St. Louis-based management consulting firm, serving all sizes of new and existing businesses.
- Core services
  - Strategic plan development and execution support
  - Economics, finance, and risk management
  - IT strategy
  - HR strategy
  - Supply chain management
  - Process improvement
  - Project management support
  - Executive coaching



# Professional Background



# The Basics

- What is Risk?
  - Potential for loss
  - Possibility of falling short of expectations
  - Uncertainty in outcomes
  - Event or condition that could cause performance shortfalls compared to expectations
  - The effect of uncertainty on objectives
  - Many others...

## The Basics

- Practical examples of the evidence of risk
  - Missing earnings targets
  - Frequent and/or extended outages
  - Excessive customer price fluctuations
  - Workplace accident
    - Minor
    - Fatal
  - Being fired

Expectations are  
the foundation for  
assessing risk

# The Basics

- Risk Types
  - Strategic
  - Operational
  - Financial
  - Legal/Regulatory
  - Hazard/Acts of Nature

# Discussion

**Experience  
on Demand**

What are the biggest risks you believe your company faces?



## Trends by Risk Focus Area

- Insurance
- Energy Risk
- Strategic & Regulatory

# ERM – Here to Stay? How?

The attention on ERM is cyclical, but continues to expand

## Development

1992: COSO Internal Control: Integrated Framework

1995: AS/NZS 4360: Risk Management

2002: Sarbanes Oxley Act

2004: OMB Circular A-123 update: Management's Responsibility for Internal Control

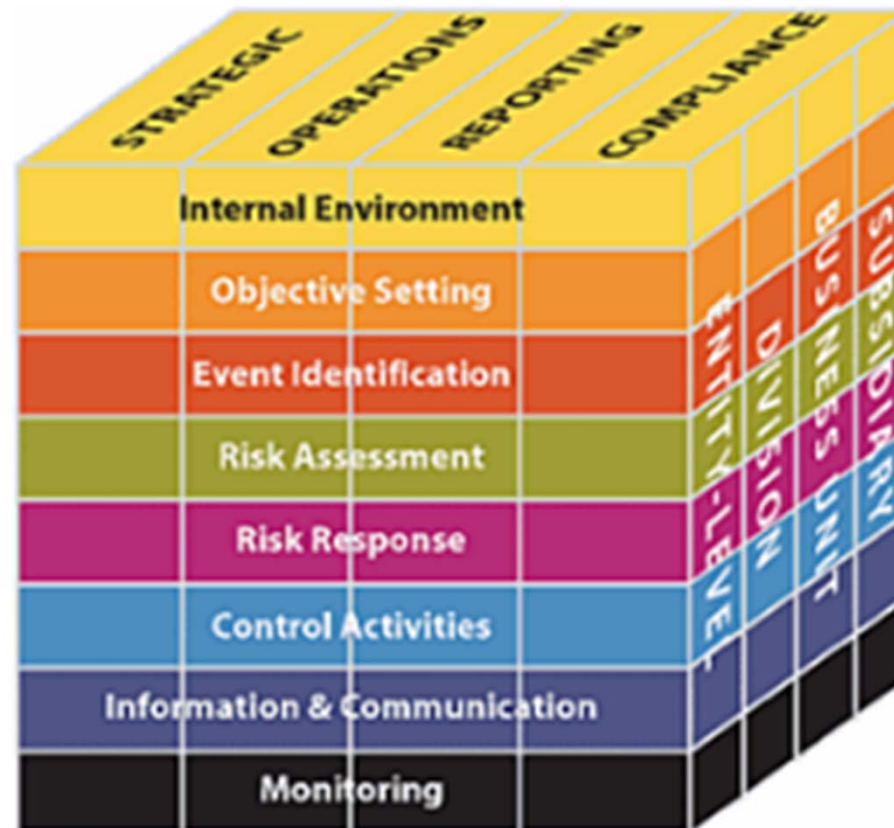
2004: COSO Enterprise Risk Management: Integrated Framework

2009: ISO 31000: Risk Management

2016: OMB Circular A-123 update: Management's Responsibility for Enterprise Risk Management and Internal Control

## ERM Standards

- COSO Enterprise Risk Management – Integrated Framework



# ERM Standards

- ISO 31000: Risk Management

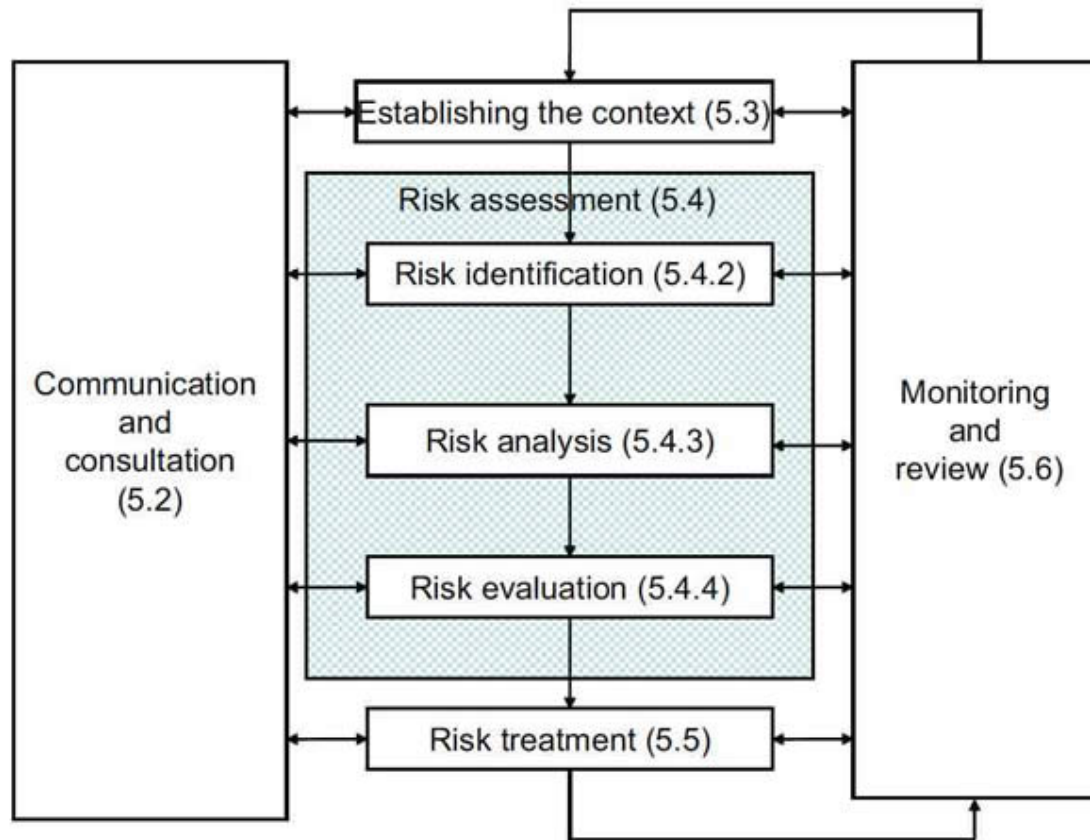
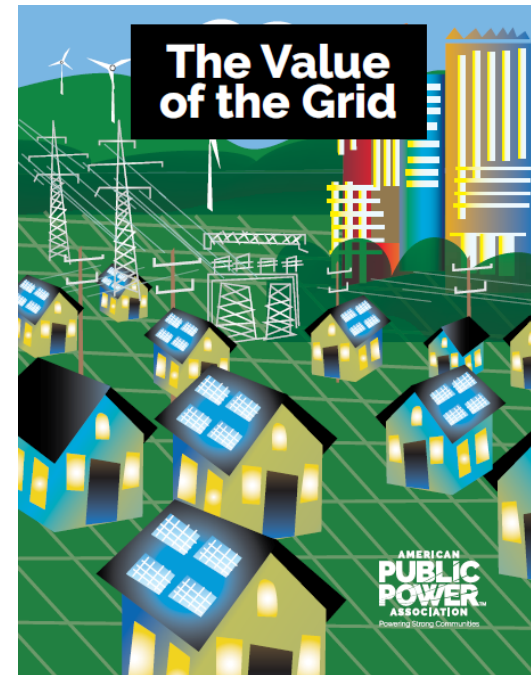


Figure 3 — Risk management process

# Risk and the Utility of the Future

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on Demand

- Local utilities have unique advantages
  - Access to the grid for reliability
  - Convenience
  - Safety
  - Connection to community
  - What are some others?



Paul Zummo, Director, Policy Research  
and Analysis  
American Public Power Association

## Local Utility Risks

- While risk of displacement of local utility is low, risk of displacement of management team is **not** necessarily low
- Game can still be lost



The Ducks went on to score 24 unanswered points en route to a 51-27 win.



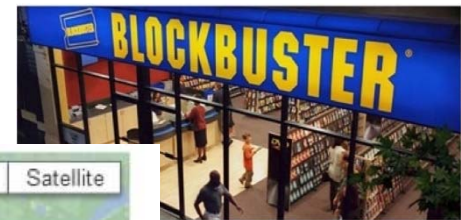
## Local Utility Risks

- Ways to lose
  - Ignoring customer/societal trends
  
  - Negligence leading to harm to people or property
  
  - High prices combined with poor service
    - Higher prices in general and/or large price fluctuations
    - Poor reliability
    - Poor customer service
  
  - Inability to obtain capital
    - Erosion of liquidity and cash flow to the point where debt service cannot be met

# Improving Customer Service



- Lessons from History
  - All businesses are subject to both competition and changes in customer preferences
- Major companies and brands that are no longer with us



Cities, towns and counties are shown in red. Utility authorities and other municipalities are displayed in gray. Click a marker to view details of each filing. Multiple municipalities have filed for bankruptcy in some cities, such as Omaha, Neb., so not all markers are visible without zooming in on the map.

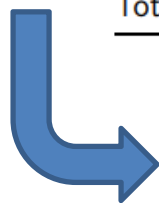


Proprietary Information - Not for Release



# Rating Agency Perspective

Broad Scorecard Factors		Factor Weighting	Scorecard Subfactor	Subfactor Weighting
System Characteristics	30%	Asset Condition (Remaining Useful Life)	10%	
		Service Area Wealth (Median Family Income)	12.5%	
		System Size (O&M)	7.5%	
Financial Strength	40%	Annual Debt Service Coverage	15%	
		Days Cash on Hand	15%	
		Debt to Operating Revenues	10%	
Management	20%	Rate Management	10%	
		Regulatory Compliance and Capital Planning	10%	
Legal Provisions	10%	Rate Covenant	5%	
		Debt Service Reserve Requirement	5%	
<b>Total</b>	<b>100%</b>	<b>Total</b>	<b>100%</b>	



Ideally, rates increase marginally and steadily, rather than choppily. It is common for utilities to split their rates into a “base” charge (flat rate charged to all users) plus a “volumetric” charge (per unit costs based on flow/usage). Utilities funded to a greater extent by the volumetric charge face greater risks, since volume can be economically sensitive or decline because of a shift in consumption patterns.

## Contact Information

**Experience  
on Demand**

# Thank You!

We appreciate the opportunity to serve



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