



ST. JOHN'S
UNIVERSITY

THE PETER J. TOBIN
COLLEGE OF BUSINESS



ENTERPRISE RISK MANAGEMENT IN THE ENERGY INDUSTRY

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Center for Excellence in ERM at St. John's University

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Data Analysis provided by Protivity

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EXECUTIVE SUMMARY

This survey and ERM assessment of energy companies in North America is the first of its kind for the industry. Over 100 organizations chose to participate and reveal the state of enterprise risk management for the energy industry. The findings reveal insights into where the industry is doing well, their risk concerns, their risk governance and infrastructure, and their risk needs. Risk management in the industry is good but opportunities for improvement exist.

KEY FINDINGS

1. The energy industry has built some ERM infrastructure, with a majority having formal ERM programs, formal risk committees, and risk assessment processes.
2. Most of the industry believes risks are growing and, on top of that, many also admit to having recent risk surprises.
3. Most state that risks are not identified in major decisions and that they do not have a clear threshold signaling when to dig deeper into a risk.
4. Communication over risks needs some big improvement as suggested by the significant number that do not have clear risk accountability, do not have guidance on deep dives, and do not communicate risk information timely.
5. The industry's greatest training need is tying risks to strategy.

METHOD

St. John's University's Center for Excellence in ERM and Aegis conducted this survey in 2015. Over 100 organizations in the energy industry responded, creating the largest energy ERM industry assessment to date. The results are not an individual assessment of each organization's ERM practices but are, instead, self-reported and represent the aggregate view.

INDUSTRY

The respondents described themselves as:

- Electric — 47%
- Gas — 13%
- Combined — 29%
- Other — 17%

SIZE

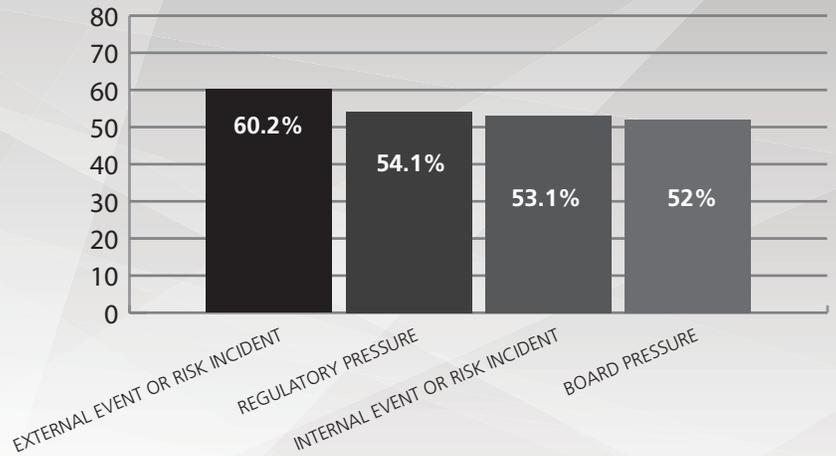
- 27% of the respondents listed revenue as > \$5 billion
- 56% of the respondents listed revenue from \$500 million to \$5 billion
- 17% listed revenue as less than \$500 million

KEY RESULTS AND COMMENTARY

WHAT ARE THE PRIMARY DRIVERS OF YOUR ERM PROGRAM?

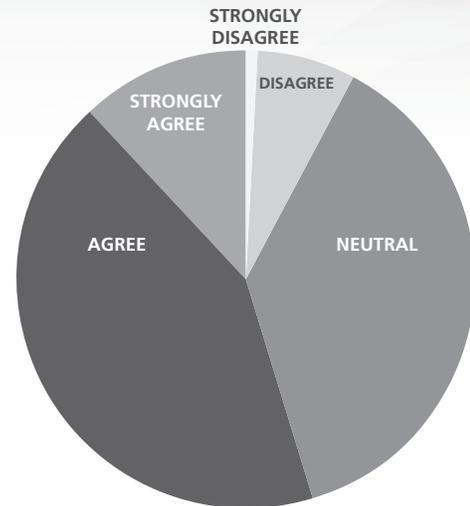
There are many reasons companies are building their ERM capability. The top four listed by energy companies are:

- External event or risk incident
- Regulatory pressure
- Internal event or risk incident
- Board pressure.



ARE THE RISKS FACING THIS ORGANIZATION GROWING SIGNIFICANTLY?

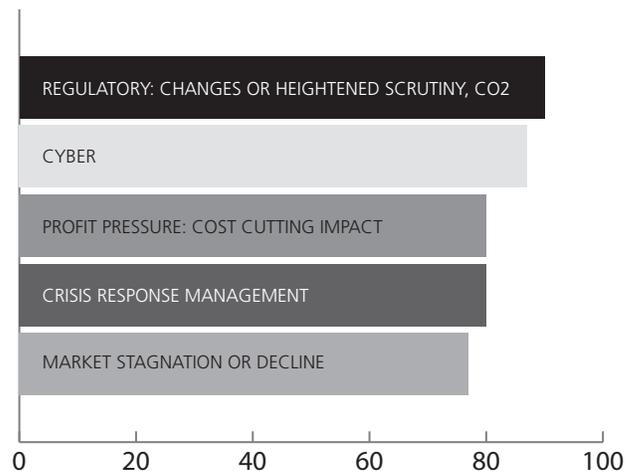
- More than half of the companies agree the risks facing the industry are growing dramatically.
- The industry is looking broadly at the risks facing them with almost 81% monitoring external macro risk factors.



TOP GLOBAL RISKS

The top five global risks were listed as:

- Regulatory
- Cyber
- Profit pressure and cost cutting
- Crisis management
- Market stagnation.

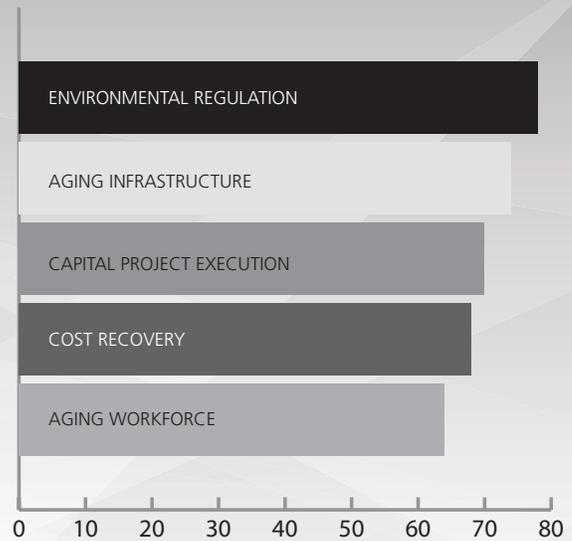


KEY RESULTS AND COMMENTARY

TOP INDUSTRY RISKS

The top five risks facing the industry were identified as:

- Environmental regulation
- Aging infrastructure
- Capital project execution
- Cost recovery
- Aging workforce.



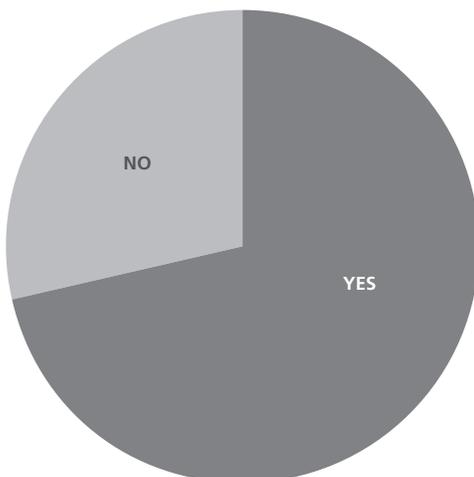
ERM INFRASTRUCTURE

As a result of the drivers, calls for better risk management, and heightened concern over risks, the energy industry is building ERM infrastructure. Key infrastructure findings are:

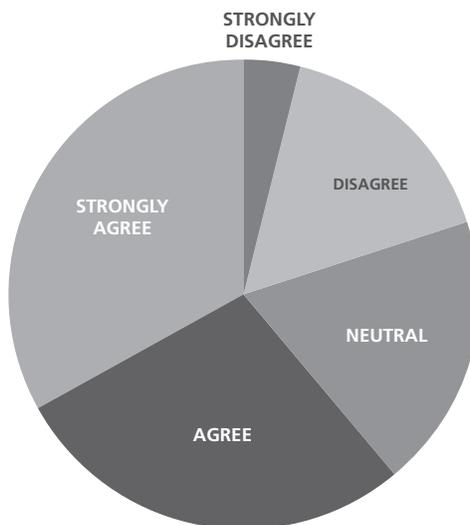
- Almost three-fourths have an ERM lead or CRO
- Half of the companies have a management level risk committee
- About half also have risk tolerance statements.

Additionally, most organizations determine the financial impact and likelihood of risks and another large majority of the respondents consider impact as more than dollars (e.g., environmental, mission, health).

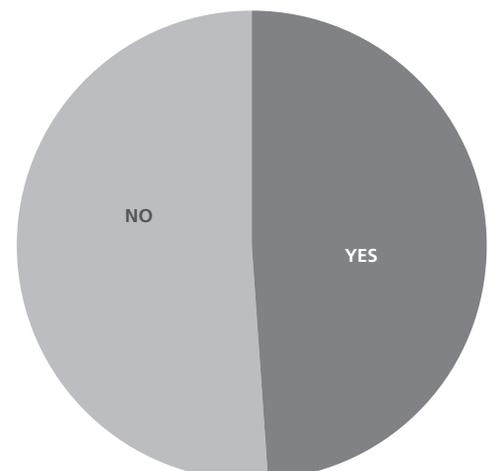
DOES THE COMPANY HAVE A DESIGNATED ERM LEAD OR CHIEF RISK OFFICER?



IS THERE A MANAGEMENT LEVEL RISK COMMITTEE RESPONSIBLE FOR ERM?



DOES THE ORGANIZATION HAVE AN ESTABLISHED RISK TOLERANCE STATEMENT?



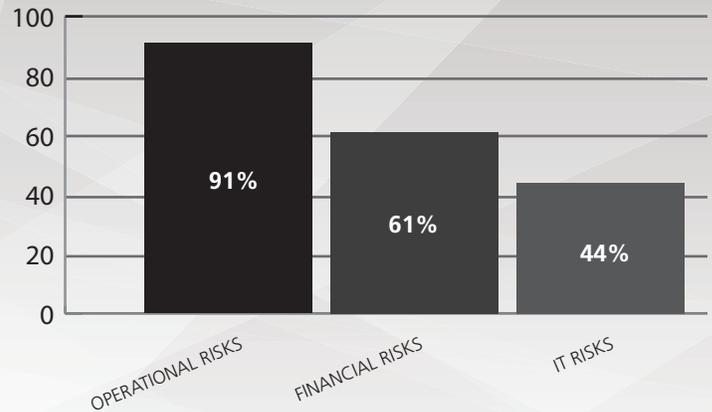
KEY RESULTS AND COMMENTARY

INTEGRATION AND INSURANCE: IS INSURANCE AN EFFECTIVE RISK MITIGATION TOOL FOR YOUR ORGANIZATION?

More than half of the respondents integrate ERM with each of the following areas: traditional risk management, finance, strategy, operations, and internal audit.

Additionally, large percentages see insurance as an effective risk mitigation tool. The top three areas listed where insurance is an effective risk mitigation tool were:

- Operational risks (91%)
- Financial risks (61%)
- IT risks (44%).



SURPRISES AND PREPARATION

A significant number of energy companies admit having recent risk surprises. This is a reminder that energy companies should strengthen ERM and risk identification. Companies may want to consider getting a serious review/assessment of their ERM process.

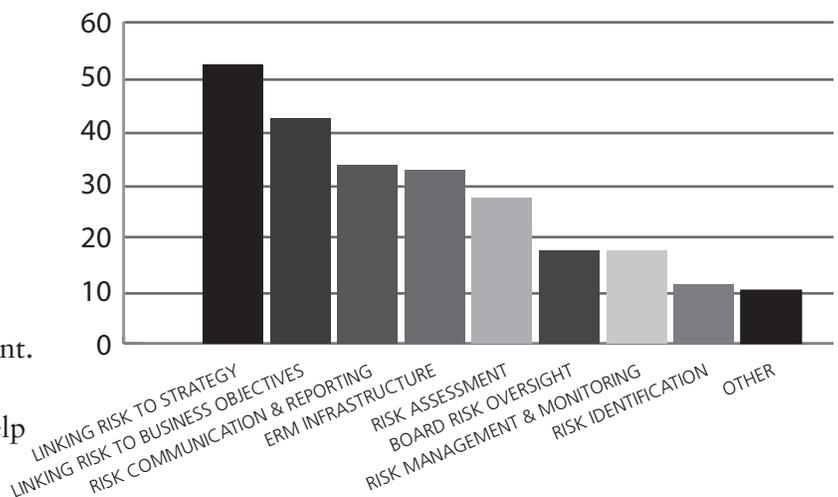
Many companies also admitted that no guidance exists for when to do a deeper dive into a risk and a large number declared that new major decisions do not require a thorough risk analysis.

COMMUNICATION AND REPORTING

Most reported that risks through the ERM process are reported to management and the board on a timely basis. Still, that leaves around 30% that do not report timely. It's difficult for boards to exercise board risk oversight without that information.

MOVING FORWARD: WHERE DO YOU NEED EDUCATION AND TRAINING?

- Linking risk to strategy was #1 at 52%.
- Linking risk to business objectives was 42%.
- Building ERM infrastructure and risk communication and reporting were tied for third at 33%.
- Another 27% needed help with risk assessment.
- 17% needed help with board risk oversight.
- Interestingly, only 11% stated they needed help with risk identification.



CONCLUSION

SUMMARY AND COMPANY CONSIDERATIONS

The results are not an assessment, review, or benchmarking of an individual company. Instead, they are an aggregate picture of ERM in the industry.

Some summary lessons include:

- The industry has room for improvement. Each company should compare their practices to the results or have an assessment done of their ERM approach.
- Some risks may be larger than one company. The industry may need to work together and with key partners to manage these risks.
- ERM has been shown to lead to greater value. Companies may want to get expert help to further develop their ERM processes.

ABOUT THE ST. JOHN'S UNIVERSITY SCHOOL OF RISK MANAGEMENT

The School of Risk Management at St. John's University's Tobin College of Business offers degrees in actuarial science, risk, and enterprise risk management. The MS in Enterprise Risk Management is accredited by the AACSB. The school also hosts the Center for Excellence in ERM, run by Dr. Paul Walker. The Center hosts ERM roundtables, produces research and white papers on ERM, and conducts executive education in ERM.

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