

Addressing Risk in the Cooperative Part 1 of 3: What is Risk?

Key Highlights

- Continual changes in our industry present risks for cooperatives.
- Risks can be insignificant or daunting.
- Enterprise Risk Management (ERM) can address risk and provide a more comprehensive view of how it impacts a cooperative.
- This new series of advisories explains risk and ERM. The entire series will be available to members on Cooperative.com: <https://www.cooperative.com/programs-services/consulting-services/governance/Pages/enterprise-risk-management.aspx>

Introduction

The electric industry is changing rapidly. With every new technology, change in law or regulation, increase in interconnections and use of renewable resources, rapidly changing consumer-member expectations, and increase in challenges to security and resiliency, the industry changes – and with change comes risk.

Cooperatives have a long history of dealing with risk. What is emerging is the scope of increased risk and complicated business and operations challenges. Enterprise Risk Management (ERM) provides an opportunity to have a more comprehensive view of the entire cooperative and its major issues, improve governance, create a more productive culture, and improve communication pathways.

This series of advisories discusses Enterprise Risk Management and how ERM can address risk in every cooperative, no matter what size or level of operational complexity.

The series consists of three advisories. Each advisory examines a basic risk concept and provides information on risk and how ERM addresses risk:

1. What is risk?
2. What is Enterprise Risk Management?
3. An introduction to the five-part cycle.

This first advisory focuses on providing an overview of risk and why it is important.

What is Risk?

We face risks daily, in our private and professional lives. These risks run the gamut from small and mundane to enormous and daunting. How we handle risk can be conscious or unconscious, can be through luck or through organization and planning, and will impact how we deal with future risk. For example, you assume risk whenever you get in your vehicle and that risk can vary on many factors: duration of the trip, weather and road conditions, traffic, or your own physical or mental state. Certain trips appear to present minimal risk, other trips appear to involve higher risk. In each situation, you assess conscious risks and take steps to mitigate those risks.

Traditional definitions of risk tend to focus only on the negative impacts of risk and on the insurability of "solving" risk. Risk was traditionally thought of as a problem or issue, usually financial, that the cooperative faced. Further, risk was traditionally considered as a problem that could be mitigated with the purchase of an insurance policy.

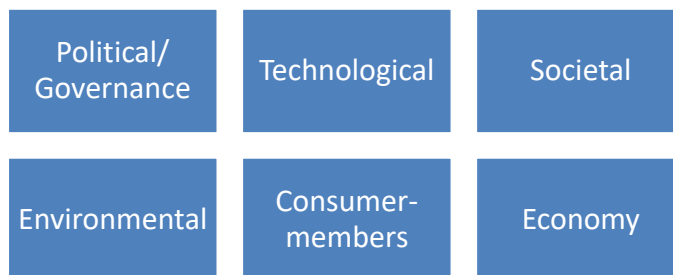
However, there are several risks that cannot be insured, and even more risks that are positive in nature. Taking this into consideration, a more comprehensive way to think about risk might be:

Risk involves a project, event, or decision that impacts the cooperative.

Risk as a *positive contributor* to the cooperative is a new way of thinking. For example, during the recent pandemic, many cooperatives were faced with the "problem" of how to conduct annual member meetings. The issue seemed overwhelming, but cooperatives came up with novel and innovative means of dealing with the annual meeting issues. On the positive side, many members found the new meeting formats worked well, had broader member participation, and provided more meaningful insight. What seemed to be a problem (negative risk) ended up being an asset (positive risk).

Risk Drivers

Risk is coming at the cooperative from all sides and from new sources. The risks NRECA's member-cooperatives face are expanding quickly. The rapid industry changes create managerial and oversight challenges for cooperatives and can take many forms. There are six major "risk drivers" to the modern electric cooperative:



These six risk drivers interweave to create both problems and opportunities and factor into a comprehensive risk analysis.

Risk Analysis

Risk analysis is the study of underlying uncertainties of a course of action or initiative and assessing the likelihood of either a positive or adverse event within the cooperative. It refers to the uncertainty of various business activities and events, like forecasted power supply, weather impacts, and employee actions, including accidents and injuries, board elections, member demand, revenue, cash flows, the probability of an action or activity's success or failure, and other possible outcomes. All of these are forms of risk and can be analyzed.

All businesses and individuals face certain risks; without risk, rewards are less likely. However, taking on too much risk can lead to failure. Risk analysis allows a balance to be struck between taking risks and reducing them.

View Risk from an Enterprise Level, Not a Silo

Your cooperative probably has some formal risk management programs or processes in place. This is often called "siloes," "program," or "directed" risk management. For example, NRECA provides "programmable" risk management through the Rural Electric Safety Achievement Program (RESAP) and through new cybersecurity initiatives. Often, however, the cooperative's overall risk programming is fragmented or siloes within departments—line technicians deal with the safety program, IT deals with cybersecurity programs. Other risks are siloes in various departments. Alternatively, ERM approaches risk from the enterprise level.

How ERM Can Help – An Introduction

In a rapidly changing industry, incorporating a system of risk management across the cooperative can be useful. ERM is a simple, scalable, and comprehensive method to assess, track and help identify and address uncertainties (risks). ERM allows management to oversee the continual progression toward strategic plans and objectives on a complete, integrated, cooperative-wide level.

NRECA Consulting Services offers a program to implement ERM within your cooperative. In the next two advisories in this series, we will explore ERM more deeply to assist you in understanding how this approach can provide you with management tools and a broad vision of risk at your cooperative to help you determine if and this approach is right for your cooperative.

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