

ELES, d.o.o. and Risk Management

By Vid Pahor*

ELES d.o.o., the Transmission System Operator (henceforth referred to as: ELES) is responsible for the safe, reliable and uninterrupted transmission of electricity in the Republic of Slovenia as well as for the development, construction and maintenance of the transmission system.

ELES is the guardian of the Slovenia's electric power system, which is closely linked to transmission networks of the neighbouring countries and integrated into the European electric power system. ELES is a member of the European Association of Transmission System Operators ENTSO-E, CIGRE, CAO and CASC auction houses and involved in numerous international projects.

The transmission network of the Republic of Slovenia is managed by ELES. It connects the generators of electricity with its consumers and allows for international cross-border connections through which Slovenia exchanges electricity with Austria, Italy and Croatia. The transmission network is a high-voltage system, which consists of 400, 220 and 110 kV voltage level transmission lines and a number of substations in the systemic length of 2,843 kilometres, which represents the backbone of the electric power system in Slovenia and through which over 20 TWh of electricity flows each year.

ELES, d.o.o., is a public 100% state-owned Company, which employs 530 people, and which, in addition to providing stable and high-quality transmission of electricity, is also expected to demonstrate appropriate business performance.

The Company's Risk Management System and the Risk Catalogue

A careful address and management of both technical and business risks are essential for quality performance of the mission and the achievement of business success. Therefore, in these uncertain economic conditions, ELES adopted risk management in the business strategy of the Company so as to ensure stable operations and achievement of the objectives.

In developing the risk management system, ELES set as its main objective the reduction in exposure of the Company's business to the risks and an easier identification of opportunities that arise in a turbulent business environment.

The product of the system is a Company's Risks Catalogue, i.e., a collection of important operation and strategic risks, which the Company addresses and demonstrates on the common denominator. The Catalogue sets out the risk management system with an umbrella structure, method of managing individual risk groups by business areas, with the analysis and the method of management as well as the relations of strategic risks to the risks in the processes; the Appendix includes "specification of strategic risks and risks by business segments".

The Risks Catalogue is an important document in managing the Company's business operations; therefore, it constitutes a business secret and is available to those responsible for achieving targets and to the management and supervisory bodies.

By way of applying internal regulations, ELES defines on a regular basis, i.e., at least once a year, and at important events, also a regular checking and updating of the adequacy of the risks and measures structure as regards the set objectives and current business circumstances.

The method of managing the risks is defined by the Company's internal regulation and the prescribed methodology. This ensures a uniform approach to the identification and evaluation of the risks and inclusion of the risk management system into a uniform system of corporate governance.

A uniform system of corporate governance which, in addition to risk management /pursuant to ISO 31000: 2009 /Risk Management – Principles and Guidelines/ combines quality management systems / pursuant to DIN EN ISO 9001: 2008/, environmental management /pursuant to DIN EN ISO 14001: 2005/ occupational health and safety / pursuant to SIST-TS BS OHSAS 18001: 2012/, information security / pursuant to BS PAS ISO/IEC 27001: 2005/ and asset management / following best practice BSI PAS 55 - ISO 55000/1/2/ as well as the Company's commitment towards business excellence pursuant to the EFQEM model, additionally contribute to the good management of the business operation and the reduction in the exposure to operation risk.

In recent times, we have introduced a system of corporate integrity so as to reduce exposure to risks of fraud and unethical and imprudent business operations. In this system, ELES develops and monitors risk management measures.

In order to reduce the exposure to the "compliance" risk, ELES has introduced IUS-ALERT¹, with which ELES weekly informs the holders of the business lines about all amendments and supplements to the legislation and monitors their responses.

To better monitor the management of the exposure and to increase responsive-

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See footnotes at end of text.

ness, ELES monitors risk management indicators and efficiency measures. Attention is also focused on the achievement of performance indicators (KPIs) on the process' and strategic objectives, while their discrepancy from the tolerance limits is the signal for an immediate verification of the adequacy of the risk structure and measure as to the objectives and current business circumstances. The achievement of the performance indicators, KPIs, indirectly highlights also the past performance of risk management, which indicates the likely future behaviour in managing the exposure of operations and identification of opportunities that arise in a business environment.

Developments in this field are guided and monitored by the Risk Committee, which focuses on monitoring progress in managing exposure, examines the suitability of acceptable Risk Appetite, whereat it takes into consideration the importance of the Company's activity and requirements in the performance of public utility service of the transmission system operator and connects the business areas in the identification of risks and designing of measures. The member of the Committee is also a representative of the Internal Audit, who by way of applying findings and recommendations, additionally contributes to better management of operations and thereby to the reduction of the exposure of the Company's business to any such risks.

The Committee is run by the Adviser to CEO on Risk Management, while the executive directors of the business areas and the heads of departments are members of the Committee. To carry out operational duties as per areas, ELES has organised a team for risks at the level of assistant executive directors, which represents an appropriate hierarchical level for the quality execution of tasks².

The most significant risks are addressed and monitored through the expert councils and the Council of the Chief Executive Officer, where the measures are designed as the management's decisions.

Method of Tackling the Risks and the Reduction of Exposure

The risks are addressed as per processes. In doing so, ELES stems from the good practices of ISO 31000: 2009 /Risk Management - Principles and Guidelines/ standard. The responsibility for its management is inseparably connected with the responsibility for achieving the objectives, while the roles in managing risks are also clearly defined, i.e., in identifying, assessing risks and designing management measures and the updating of their structures.

The executive directors of the areas, responsible for achieving the objectives, firstly examine the internal and external context of business performance in their processes, whereby they identify the internal and external regulatory requirements and the business environment, the state of the objectives, the policies, the relations and understanding of internal and external stakeholders and other circumstances affecting consideration of the risks and develop the risk areas-groups to be addressed. The identified process-operation risks are upgraded with the management risks of these processes, and evaluated, while measure are taken for the risks, which exceed the acceptable level of Risk Appetite, which are determined every time by the Risk Committee, while others are addressed and valued during the modernisation of the structure. In this way, ELES continues to deal with the significant risks. Based on the experience, ELES has developed value scales to evaluate the impact and likelihood of materialisation of risks. Said scales provide a common "denominator" for the evaluation of risks across different business areas.

In addition to focusing on the process and strategic risks, the Company addresses and manages also specialised areas of risks pursuant to the requirements of the labour and environmental protection legislation and standards of information security.

The executive field directors periodically analyse the operation management, including risk management, and on that basis makes an annual statement on the field/area management. In the audit of transactions and processes the Internal Audit also examines the adequacy of the risk and measure structure and notifies the Chief Executive Officer of the Company and the Supervisory authorities on its findings and recommendations.

By doing so, ELES rounds up the risk management in the Company, i.e., from their identification, evaluation through the design and monitoring of realization and the effectiveness of measures, to ex-post checking of the adequacy of the risk structure and the objectives of the measures as regards to the situation and current business circumstances.

By way of applying the aforementioned presented method, ELES – in addition to the strategic risks³ – addresses 18-operation-process risks in six business areas in the Company.

The main risks are related to the basic activity of the system operator, i.e., providing a stable and high-quality transmission of electricity. These include the risks of system operation, construction and maintenance of infrastructure of the transmission system and risk management with the Company's assets. The strongest measures are earmarked for these risks, i.e., in addition to the risks of internal and external regulatory framework that directly affect the core business and the Company's business performance and risks arising from project management, procurement and financial business.

The adjacent graph shows the distribution of risks identified as per category of high, medium, low. Despite the imposed measures, single highly-assessed risks remain and require constant attention and monitoring of actions imposed.

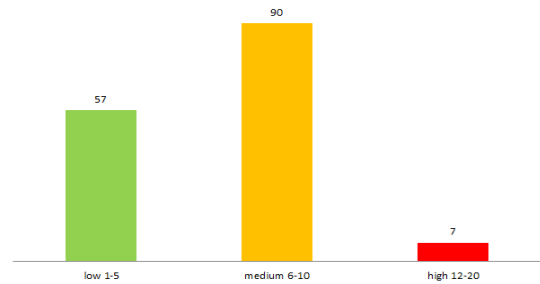
The introduction of the tolerable Risk Appetite almost halves the number of identified risks, onto those for which the measures are taken and onto those which are monitored and studied upon the structure risk and measures updates.

The following identifiers of the Company's business areas, apply to all graphs that follow in this article:

- Vodstvo Company Management
- PUSP Assets and Project Management Division
- POS Transmission System Operation Division
- PIPO Transmission Network Infrastructure Division
- PPD Corporate Services Division
- PIKT Information and Telecommunications Division
- JN Public Procurement
- Skupaj Total

<p>1. Company Management risk</p> <p>a. Corporate integrity risks</p> <p>b. Human resources risks</p> <p>c. Public relations risks</p> <p>d. Management systems risks</p>	<p>2. Assets and Projects Management risks</p> <p>a. Regulatory risks for the sustainable development of the Company</p> <p>b. Risks of planning, development, selection of technology and methods</p> <p>c. Project management risks</p> <p>d. Analytics, diagnostics assets appropriation risks</p> <p>e. Property risks</p>	<p>3. Transmission-System Operation risks</p> <p>a. Operation and management risks</p> <p>b. Risks of allocation of cross-border transmission capacities</p> <p>c. Risks of ancillary services provision</p>
<p>4. Transmission Network Infrastructure risks</p> <p>a. Construction of transmission network risks</p> <p>b. Maintenance of transmission network risks</p>	<p>5. Corporate services risks</p> <p>a. Procurement of goods and services risks</p> <p>b. Financial risks</p>	<p>6. IT and Telecommunications risks</p> <p>a. IT risks in business processes</p> <p>b. Telecommunications risks for Transmission System Operation</p>

Distribution of risks as per category



By defining measures as per business areas, ELES significantly reduces exposure to the Company's business risk in both basic activities, i.e., the achievement of business performance and compliance. In doing so, ELES monitors the implementation of measures and assesses their effectiveness. ELES estimates that with the measures introduced, ELES reduces by half the exposure of the Company to business risks; however, varying according to individual business areas.

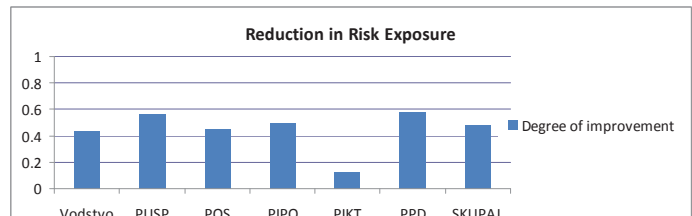
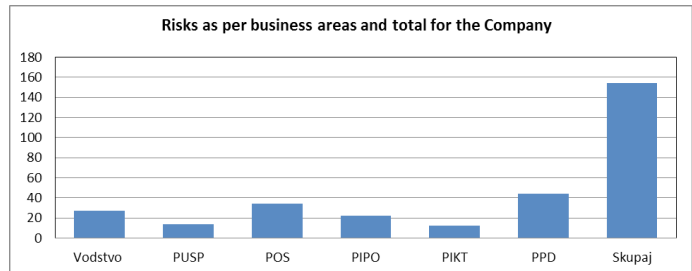
Despite the identified measures, some of the risks still exceed the acceptable level since the major underlying reasons for them remain in particular outside the Company, or the estimated costs of more powerful measures are too high in relation to the effects of the risk management; hence, ELES pays special attention to the latter and the strategic risks.

In addition to the operational-process risks, ELES also addresses the strategic risks, which are defined as important risks that decisively influence both the fundamental system operator's activity as well as the business performance of the public company. ELES ensures the management of these risks by way of applying the measures on the processes and with the monitoring of the management hierarchy, while their aptness is tested at the Strategic Conference of the Company.

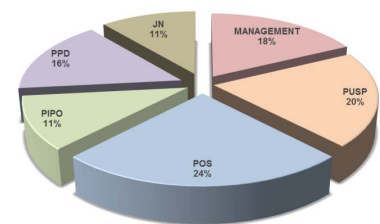
Conclusion

The risk management system and handling thereof reduces the exposure of the Company's business operations to the risks, while it ensures to the responsible ones to achieve objectives and assists them in identifying opportunities in the turbulent business environment.

Given the characteristics of the maturity model, ELES developed a uniform top-down managed risk management system, with a strong support of the top management /tone at the top/, defined strategic risks, defined organisation for the development and monitoring of the system with uniform methodology and pro-



Structure of risks in the Company's strategic risks



cess, dedicated team aims to disseminate awareness and knowledge on the necessity of managing risk exposure of operations and continuously updates the risk structures and measures.

ELES progressively further develops the Risk Managing System according to the needs and requirements of the Company's management bodies.

Footnotes

¹ “regulatory alert system”, through the IUS INFO portal

² The organisation of the risk management system is optimised pursuant to the needs of the Company and the policies of the top management, which is responsible for the establishment of an appropriate control environment.

³ Among the most important strategic risks, ELES included the risk that have a decisive influence both on the objectives of the underlying activities as well as the system operator' business performance.

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IAEE is pleased to announce the continuation of a special program offering conference support to IAEE student members from developing countries (for a list of qualifying countries please visit <http://www.iaee.org/documents/LIC.pdf>). Your country of origin must be on this list for support to be considered. The program covers five of the Association's conferences in 2016. This program is generously underwritten by the OPEC Fund for International Development (OFID) and the International Association for Energy Economics. The program covers transportation and lodging reimbursement up to \$1750.00 plus waiver of conference registration fees for a limited number of qualifying students. Note: you must be (1) from a qualifying country, (2) a current IAEE member, (3) registered as a full-time student in a program of study and (4) be enrolled in full-time PhD academic coursework during the application stage as well as during the conference to be attended. It is further strongly suggested that you submit a paper for presentation at the conference you wish to attend and receive this support and be in the process of obtaining your PhD. The conferences included in the program are the 5th IAEE Asian Conference, Perth, Australia, February 14-17, 2016, 9th NAEE/IAEE International Conference in Abuja, Nigeria, April 24-26, 2016, 39th IAEE International Conference in Bergen, Norway, June 19-22, 2016, 1st IAEE Eurasian Conference, Baku Azerbaijan, August 28-31, 2016 and the 34th USAEE/IAEE North American Conference in Tulsa, OK, October 23-26, 2016.

Application deadlines for these conferences are as follows: Perth Conference – application cut-off date, November 13, 2015; Abuja Conference – application cut-off date, January 15, 2016; Bergen Conference – application cut-off date, March 16, 2016; Baku Conference – application cut-off date, May 26, 2016; Tulsa Conference – application cut-off date, July 18, 2016.

Please submit the following information in one succinct email (e.g., all below materials sent in the same email – including your professor's letter of recommendation) electronically to iaee@iaee.org to have your request for support considered. Make the subject line of your email read “Application to OFID/IAEE Support Fund (mention the conference you wish to attend).”

- Full name, mailing address, phone/fax/email, country of origin and educational degree pursuing.
- A letter stating you are a full-time graduate/college student during the application stage as well as during the time of the conference you wish to attend, a brief description of your course work and energy interests, and the professional benefit you anticipate from attending the conference. The letter should also provide the name and contact information of your main faculty supervisor or your department chair, and should include a copy of your student identification card.
- Indication of whether or not you have submitted an abstract to the conference you wish to receive OFID/IAEE Support to attend.
- A letter from your academic faculty, preferably your faculty supervisor, recommending you for this support and highlighting some of your academic research and achievements, and your academic progress.
- A cost estimate of your travel/lodging expenses to participate in your conference of choice.

Please note that students may apply for this support at only one of the above conferences. Multiple requests will not be considered. If you are awarded support and are unable to attend the conference this support is not transferrable to another conference. **Further note that you must be a student member of IAEE to be considered for this support. Membership information can be found by visiting <https://www.iaee.org/en/membership/application.aspx>**

Applicants will be notified whether their application has been approved approximately 21 days after the applicable application cut-off date, above. After the applicant has received IAEE approval, it will be his/her responsibility to make their own travel (air/ground, etc.) and hotel accommodations to participate in the conference. Reimbursement up to \$1750.00 will be made upon receipt of itemized expenses and after the conference is held. The reimbursement will only cover transportation and lodging expenses. No other expenses will be covered (e.g., paying for Visa's/Passports, baggage charges, meals outside the conference provided meal functions); no more than three nights lodging will be covered.

For further information regarding the IAEE support fund for students from developing countries to participate in our conferences in 2016, please do not hesitate to contact David Williams at 216-464-5365 or via e-mail at: iaee@iaee.org

For a list of qualifying countries please visit <http://www.iaee.org/documents/LIC.pdf> If your country of origin is not on this list your application for support will not be considered.