

Group Risk Management Policy



Prepared by John McDougall

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Version Release

Version	Release date	Author	Peer review	Approved	Changes
# 1.0	28 / 03 / 2023	John McDougall	Vanessa Hannan	Board	Initial version of a group risk management policy.

This document is owned and updated by AEMO Risk Management and will be reviewed for endorsement by the Finance, Risk and Audit Committee.

1 Policy Statement

Australian Energy Market Operator (AEMO) and its subsidiaries are committed to maintaining a comprehensive and integrated risk management capability that is embedded into every business activity, decision, function, and process aligned to the international Risk Management Standard ISO 31000:2018 Risk Management – Guidelines, to create an effective risk culture.

A strong risk management culture is key to enabling AEMO and its’ subsidiaries to achieve their strategic and operational objectives. It helps in adopting a consistent and comprehensive approach to managing and mitigating risks that is dynamic, fluid, and responsive to the changing environment in which we operate.

The purpose of this Risk Management Policy (Policy) is to set out AEMO Group’s objectives for risk management and to clearly articulate the responsibilities for personnel in relation to managing risk.

This Policy is supported by AEMO’s Enterprise Risk Management Framework and other relevant related policies and procedures. In particular, AEMO Services’ risk approach is supported by the Statutory Risk Management Framework.

2 Policy Scope

This policy applies to all AEMO and subsidiary’s directors, employees, and contractors. It provides direction on the effective management of risk to support the achievement of AEMO and subsidiary’s strategic and operational objectives, and the principal behaviours to establish an effective risk culture.

3 What is Risk Management?

Risk management is defined as the process of identifying, monitoring, and managing potential risks to minimise the negative impact they may have on an organisation. At AEMO, risk management is to become an embedded set of processes that ensure decision makers are informed and make the appropriate decisions to manage AEMO through the landscape of risk. Effective risk management delivers fewer unexpected consequences, promotes forward thinking and creates a more aware and decisive organisation.

The Enterprise Risk Management Framework incorporates a “three lines” model for managing risks and controls. This three-tiered system operates as follows:

Three Lines	Responsibility	Accountability
First Line	Responsible for implementing processes and controls for managing risks.	Business Units
Second Line	Responsible for monitoring and checking the effectiveness of risk management processes and controls.	Risk Management Team
Third Line	Responsible for independently assessing the effectiveness of risk management processes and controls.	Audit Function (Internal & External Audit)

4 AEMO's Risk Context

AEMO is a not-for-profit public company limited by guarantee incorporated under the *Corporations Act 2001*.

AEMO is the independent system and market operator for most energy markets within Australia, with the primary responsibility of managing and maintaining market operations and energy system security for all Australians whilst keeping costs as low as reasonably practicable.

AEMO's operating environments are complex and diverse which creates a higher level of inherent risk. By identifying, understanding, and managing risk within our approved risk tolerances, AEMO provides greater confidence to its stakeholders in the way it conducts its operations and achieves our organisational objectives.

The energy ecosystem is rapidly changing through market reforms, innovation, and the increasing change in the generation mix. This has resulted in considerable change to AEMO's internal operations, including our risk profile. To continue to strengthen our position as the operator of energy and market systems, we need to understand the risks, opportunities, and challenges AEMO faces today and into the future.

AEMO from time to time may have subsidiaries with purposes other than those as the independent market operator, where those roles don't compromise AEMO's role. Further, the group risk management policy must be applied in accordance with the governance, legislative requirements, role and responsibilities of the respective subsidiary.

5 Risk Management Principles

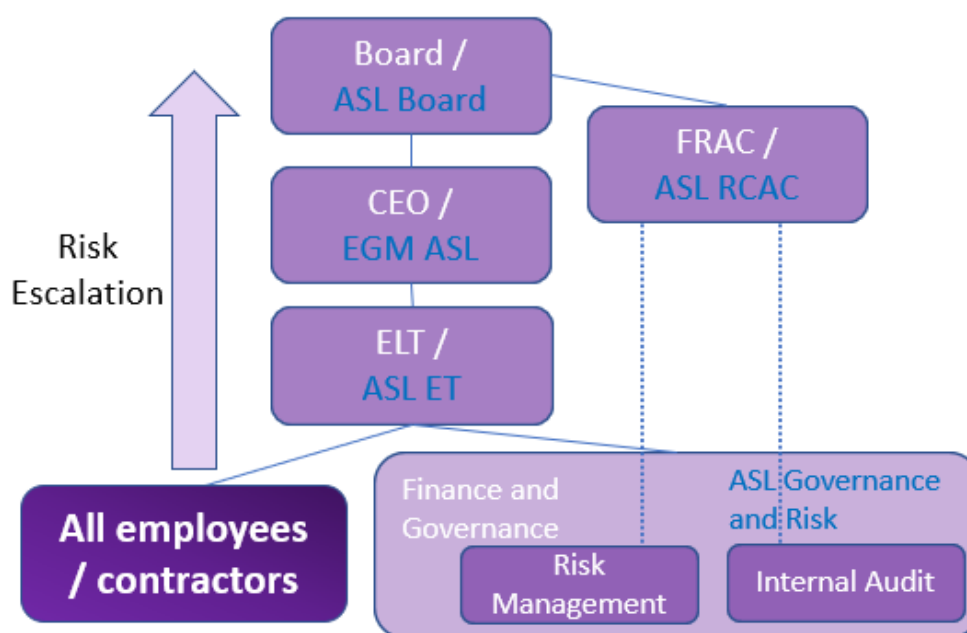
Effective risk management within AEMO Group is based on the following principles:

- Integration of enterprise-wide risk management process into all organisational processes, including strategic planning, operational functions, governance functions and projects.
- Recognise and promote the organisational capabilities and the goals of the people within and around risk management at AEMO and subsidiaries, to achieve the goals of the business.
- Adopt a consistent and comprehensive approach to managing and mitigating risks.
- Consult relevant stakeholders in the development of risk management framework and processes so that there is improved awareness and informed risk management.
- Clear ownership and accountability for risk management.
- Effectively designed and implemented controls, including planned mitigations, that aid in achievement of objectives.
- A high level of awareness of risk management by providing education programs, advice and regular updates as required.
- Timely and accurate monitoring, review, communication, and reporting of risk to Management, the Board, and its Committees.
- Continuous review and improvements to the Enterprise Risk Management Framework, ensuring the framework:
 - is relevant, fit for purpose and responsive to change with a strong alignment with Corporate Strategy and objectives.

- provides the right opportunities and tools to effectively manage risks, including more considered risk taking in line with Board approved tolerances to leverage opportunities and grow the business; and
- maintains currency with the relevant standards.

6 Responsibilities

Figure 1 Risk Management Structure at AEMO



The risk management process starts with all employees and contractors, with escalation through to the Board.

- All employees (including contractors) are required to understand, promote and be responsible for ensuring that appropriate internal controls are in place to effectively manage risks that apply to activities within their day-to-day responsibility, including risks associated with business decisions, processes, systems or people, and external events.
- The Risk Management team is responsible for developing and maintaining the Enterprise Risk Management Framework, supporting the organisation in the identification and management of risks and providing appropriate risk management tools (Risk Framework, Risk Assessment Matrix, Risk Appetite and Tolerance Statements). The Risk Management function provides independent advice and reporting to the relevant Board, Committee and Management. The Group Manager Risk or equivalent has direct access to the Managing Director & Chief Executive Officer and Committee.
- The internal audit functions assist the Board in performing reviews and internal control advisory activities which are aligned to the key risks in AEMO Group's businesses. This is to provide assurance to Management and the Board/Committee on the adequacy and effectiveness of the control environment implemented to manage our key risks, compliance obligations and financial reporting processes within AEMO.

- Members of the Executive Leadership Team (ELT / ASL ET) are owners of the enterprise risks related to their department/function. The ELT / ASL ET is responsible for the implementation and maintenance of detailed risk management strategies/mitigations, policies, processes, and controls to facilitate the achievement of business plans and goals.
- The ELT / ASL ET is responsible for maintaining a risk aware culture, ensuring integration of risk management into key decision-making and processes, quality of risk information and escalation reporting of risks to the Board/Committee as required.
- The Managing Director & Chief Executive Officer / EGM ASL is responsible for the implementation of this Policy and is accountable to the Board for fostering a positive, transparent risk management culture and for monitoring and reporting on AEMO Group's performance including key enterprise risks (strategic, emerging, and key operational risks).
- Each Board has overall responsibility for the risk management systems. It is responsible for reviewing critical, strategic, emerging, and key organisational risks, and monitors culture, skills and practices with a view to delivering outstanding risk management outcomes. The Board has delegated the responsibility of maintaining a sound Enterprise Risk Management Framework to the Committee.

Under a similar structure, AEMO Services Limited Board has established a Risk, Compliance and Audit Committee (RCAC) to help it effectively discharge its responsibilities. The above structure applies to equivalent roles within subsidiaries with an operating risk and audit committee, or equivalent.

Subsidiaries that do not have their own framework will report risk management through to AEMO Finance Risk and Audit Committee (the Committee), via the AEMO Risk Management team.

7 Review

- This Policy will be reviewed by the AEMO risk management team, in consultation with the subsidiaries every two years, or in response to an event, change of circumstances or a request from subsidiaries requiring a review of policy. The updated policy will be presented to the Committee for endorsement, and then the AEMO Board for approval.
- This Policy is managed by the Risk Management team within the AEMO Finance and Governance division.
- Requested feedback from subsidiaries that supports good governance for the subsidiary will be incorporated where reasonable and practicable, and recommended to the AEMO board for approval.
- Minor amendments that do not affect the application, purpose or intent of this policy may be approved by the EGM Finance and Governance, on the recommendation of the Group Manager Risk. All changes will be highlighted in the next review submitted to the Committee.