

**Manitoba Hydro Undertaking #74**

**Indicate whether there is a footnote on pg. 12 of Middle and Back Office Assessment. If so, please provide reference.**

KPMG Response

The footnote on page 12 was inadvertently omitted in the report production process.

Please see the attachment document.

- 1. Executive Summary
- 2. Section 2
- 3. Section 3
- 4. Section 4
- 5. Section 5
- 6. Section 6
- 7. Appendix

**Gap Analysis**

KPMG performed a high level gap analysis of MH's current risk policies vis-à-vis leading practices<sup>1</sup>. KPMG has identified a set of fundamental policy elements that represent a comprehensive risk policy and our observations and recommendations are documented on the following pages.

Policy Element	Leading Practice	Observation	Recommendations
Scope, Objectives, Purpose	<ul style="list-style-type: none"> <li>■ Risk policies should include a summary of the scope, objectives, and purpose of the policy document.</li> </ul>	<ul style="list-style-type: none"> <li>■ The purpose and scope are incorporated into the current Draft Wholesale Power Risk Policy.</li> <li>■ Objectives and purpose are incorporated into MH Creditworthiness Requirements and Power Sales and Operations Creditworthiness Requirements documents.</li> </ul>	<ul style="list-style-type: none"> <li>■ Provide an appropriate overview of the scope and purpose including inherent risks associated with energy transacting and agreed upon risk definitions</li> <li>■ Define risk management philosophy, risk management objectives, and mission statement</li> </ul>
Risk Appetite	<ul style="list-style-type: none"> <li>■ A risk appetite statement expresses the amount of risk an entity is willing to accept in pursuit of value. Risk appetite is directly related to an entity's strategy. It is considered in a strategy setting, where the desired return from a strategy should be aligned with the company's risk appetite.</li> </ul>	<ul style="list-style-type: none"> <li>■ The corporate and PS&amp;O risk appetite is implied through permitted transactions, but could be more clearly quantified.</li> </ul>	<ul style="list-style-type: none"> <li>■ Articulate a quantitative or qualitative statement that reflects strategic growth goals and desired returns from a strategy</li> <li>■ Differentiate risk appetite from risk tolerance. Risk tolerances are the acceptable levels of variations relative to the achievement of objectives</li> </ul>

<sup>1</sup> It is important to note that leading practices are aspirational, continue to evolve and are subject to the following limitations:

- Leading practices offer insight into an organization's risk management capabilities, and serve as a directional compass for an organization's risk management development. However, the development and implementation of such practices does not assure that control objectives will always be achieved.
- Many leading practices reflect the capabilities of organizations that primarily transact and manage risk in the more traditional financial markets. Requirements of organizations transacting in the energy markets can be different, and in this context, priorities should be modified accordingly. In addition, the adoption of leading practices should be considered in the context of cost versus benefits.