



Audit and Ethics Committee Meeting

Nov 20, 2025 8:00 AM - 8:30 AM CST

Committee Chair Rob McCabe

-
1. Safety Moment - Daniel Johnson
 2. Approval of minutes from the Audit and Ethics Committee held October 22, 2025
 3. Internal Audit Reports - Baker Tilly - Scott Nalley
 - 3.1. Audit and Ethics Committee Calendar
 - 3.2. Internal Audit Status Report
 - 3.3. Internal Audit Report - FY25 Grant Administration and Stewardship Program Management
 - 3.4. Internal Audit Report - Travel Expenses
 - 3.5. Enterprise Risk Management 2025 Summary
 - 3.6. Enterprise Risk Management 2025 Matrix
 4. Executive Session
 5. Miscellaneous

Safety Moment — The Importance of the National Electrical Safety Code

The National Electrical Safety Code (NESC) is the foundation for how utilities design, operate, and maintain electrical systems safely. It protects not only employees in the field but also the public we serve.

For leadership, the NESC is more than a technical reference—it's a governance responsibility. The Code is adopted by reference in Tennessee regulations by the state legislature, giving it the force of law. Ensuring that our policies, construction standards, and priorities align with NESC requirements reduces risk, prevents injuries, and strengthens system reliability.

By promoting a culture that values safety and compliance at every level, the Board plays a vital role in protecting our employees and the community we serve.

**AUDIT AND ETHICS COMMITTEE MEETING MINUTES
OCTOBER 22, 2025**

The Audit and Ethics Committee meeting was held on Wednesday, October 22, 2025.

Committee Members Present: Committee Chair Rob McCabe, Anne Davis, Clifton Harris, Ian Prunty and Casey Santos (virtually).

Officers Present: Teresa Broyles-Aplin, Laura Smith, Dr. Trish Holliday, Brent Baker and Recording Secretary David Frankenberg.

Committee Chair Rob McCabe called the meeting to order at 8:03 a.m.

SAFETY TIP

Vaughan Charles shared a safety tip on recognizing the signs of a stroke.

MINUTES

Upon motion by Member Harris and seconded by Member Davis, the Committee approved the minutes from the Audit and Ethics Committee meeting held September 24, 2025, with five ayes and zero nays.

CONFLICT OF INTEREST STATEMENTS

David Frankenberg reported that the NES Policy Manual requires all Board Members, Executive Management, Supervisors, and other designated employees to complete a Conflict-of-Interest Disclosure Statement each year. Each form is reviewed by the General Counsel and the Controls and Compliance Section. He noted that a list of relationships with other businesses is provided to the Procurement Section for consideration when awarding bids and stated that the reports were provided for reference in the Board materials.

MISCELLANEOUS

There were no miscellaneous items to present.

ADJOURNMENT

The meeting adjourned at 8:07 a.m.

EXECUTIVE SESSION

There was no Executive Session held.

APPROVED: _____
Vice Chair Casey Santos

Internal Audit Reports – Baker Tilly

**THE ELECTRIC POWER BOARD
OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**

AUDIT & ETHICS COMMITTEE CALENDAR

COMMITTEE ACTIONS	1st Qtr*	2nd Qtr*	3rd Qtr*	4th Qtr*	As Needed
EXTERNAL AUDITORS					
Advise the Board as to appointment and compensation of the external audit firm					X
Review external audit plan	January				
Confirm independence of external auditors	January		August		X
Review any “second opinions” obtained on accounting and financial reporting policies					X
Receive external communications required under generally accepted auditing standards	January		August		
Review and consider completeness of financial statements and consistency of information with that known and make recommendation to the Board as to approval			August		
Review management letter (e.g., control deficiencies)			August		
Review status of management letter corrective actions			August		
Review performance of external auditors and make recommendation to Board regarding appointment or discharge					X
EXECUTIVE MANAGEMENT					
Consider the effectiveness of internal controls	X	X	X	X	
Review Enterprise Risk Management program				November	
Review letter of representations certifying appropriateness of financial statements and disclosures			September		
INTERNAL AUDIT					
Approve the Internal Audit Charter		May			X
Advise the Board as to appointment and compensation of the internal audit firm		May			X
Review and approve the annual audit plan		May			
Review and approve changes to the audit plan		May			X
Review effectiveness of internal audit function		May			X
Review compliance with IIA standards		May			X
Confirm organizational independence		May			

COMMITTEE ACTIONS	1st Qtr*	2nd Qtr*	3rd Qtr*	4th Qtr*	As Needed
COMPLIANCE					
Review effectiveness of system for monitoring compliance	X	X	X	X	
Review findings of examinations of regulatory agencies					X
OTHER					
Receive board training	X				
Review the process for monitoring conflicts of interest				October	
Evaluate committee calendar					X
Evaluate committee performance				X	

* Calendar year

Nashville Electric Service
Internal Audit Status Report-FY26
As of November 20, 2025

CURRENT AUDITS	
Audit Description	Date Started
Environmental Safety	August 2025
T&D Operations	September 2025
Equipment and Materials Management	September 2025
Q1 FY26 Follow-up and Remediation	November 2025
Contribution in Aid to Construction	November 2025
Physical Security & Employee Safety	November 2025
UPCOMING AUDITS	
Audit Description	Scheduled Start Date
Q2 FY26 Follow-up and Remediation	January 2026
Board, Executive, and Employee Accounts	January 2026
Non-Metered Electric Billing and Miscellaneous Revenues	January 2026
Meter to Cash	March 2026
Capital Projects and Capitalization Process	April 2026
Q3 FY26 Follow-up and Remediation	April 2026
Cybersecurity Operations	April 2026
Network and Cybersecurity - Corporate	May 2026
NON-AUDIT SERVICES	
Service Description	Status/Scheduled Date
Enterprise Risk Management Assistance	Complete
Oracle C2M User Roles Segregation of Duties Assistance	In-Process
ServiceNow Integrated Risk Management (IRM) Assistance	In-Process
Completed AUDITS	
Audit Description	Completion Date
Power Systems Operations (FY25)	August 2025
Timekeeping & Payroll (FY25)	August 2025
Network and Cybersecurity - Corporate (FY25)	September 2025
Q4 FY25 Follow-up and Remediation	September 2025
Grant Administration & Stewardship Program Management (FY25)	November 2025
Travel Expenses	November 2025



Nashville Electric Service

FY2025 Grant Administration and Stewardship Program Management

Internal Audit Report

For the Period: January 1, 2024 through September 30, 2025



CONFIDENTIAL

This report is intended solely for the use of management and the Board of Directors and should not be used for any other purpose. The Company's external auditors may be provided with a copy of this report in connection with fulfilling their responsibilities.

Nashville Electric Service

Grant Administration and Stewardship Program Management
Internal Audit – FY2025

Table of Contents

I. Executive Summary.....	2
II. Overview of Results	3

Report Distribution:	<u>Name</u>	<u>Title</u>
	Brent Baker	EVP Chief Operations & Innovation Officer
	David Frankenberg	VP & CFO
	Kathryn Pohlman	Sustainability Manager
	Sandra Chapman	Controls & Compliance Manager

Additional Distribution:	<u>Name</u>	<u>Title</u>
	Rob McCabe	Audit Committee Chair
	Teresa Broyles-Aplin	President & CEO
	Laura Smith	VP Chief Legal Officer & General Counsel
	Ron Womble	VP CIO

I. Executive Summary

Introduction

Baker Tilly Advisory Group, LP has performed certain internal audit services for Nashville Electric Service (NES) related to grant administration and sustainability program management processes. Our fieldwork was performed August through October 2025. The audit covered the period January 2024 through September 2025. Our primary objective was to independently and objectively test and assess the internal controls related to **Grant Administration and Stewardship Program Management**. Our services were performed in accordance with the terms of our contract with an effective date beginning on June 1, 2021. We conducted this audit in accordance with Generally Accepted Government Auditing Standards and the *International Standards for the Professional Practice of Internal Auditing*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Scope

We evaluated the design and operating effectiveness of key controls and processes. Areas of audit emphasis included, but were not limited to, determining whether:

- Policies and Procedures related to grant administration and stewardship program management are in place and current,
- Grant and stewardship program management roles and responsibilities are clearly defined and in place,
- Grant requirements and regulations are followed,
- Grant funds are used in accordance with grant requirements,
- Financial information related to grants is complete and accurate, including tracking grant expenditures and receipt of funds,
- Individuals involved in grant management are independent and objective,
- Stewardship goals, targets, or KPIs are defined, and progress is measured against goals, and
- Engagement, communication, and reporting of stewardship initiatives to key stakeholders, customers, and local community are accurate, complete, provide transparency, and clarity as to initiatives undertaken.

Executive Summary

In a strategic move to enhance operational efficiency and mission alignment, NES has taken steps to implement a unified program and leadership structure overseeing Grant Administration and Stewardship Programs—areas that previously operated without formal coordination or dedicated oversight.

In 2022, NES engaged a third-party consultant (KPMG) to perform a benchmarking study to identify common frameworks, strategies, and initiatives in the areas of stewardship used by peers and competitors in the utility sector. The study identified a preliminary list of stewardship initiatives and assessed them for priority of implementation. KPMG provided a broad roadmap for implementation of these initiatives in each of the key focus areas, as well as a roadmap for implementing a formal operating model and external reporting. Training in these areas was also provided to NES Supervisors.

In 2023, NES hired a Chief Customer Relations and Innovation Officer and a Sustainability Manager to oversee, lead, and coordinate the overall stewardship strategy with key stakeholders in various departments across the organization, which would essentially be part of an overall steering committee and the Community Impact Team. Over the past couple of years, many of the priority initiatives have been acted upon and updates are periodically reported to NES customers, employees, and the Board. Priorities include initiatives such as renewable energy efforts, environmental stewardship (electrical vehicle strategy), community engagement, and employee engagement and development.

The Community Impact Team was recently convened where ideas were discussed, prioritized, and shared by cross-functional teams with focus areas that aligned with NES' strategic stewardship targets. Management is nearly complete with the project to fully develop the Stewardship strategy and framework, including key metrics (KPIs), monitoring, and disclosure processes. Executive leadership expects these to be completed in conjunction with the revised NES Strategic Plan by the end of calendar year 2025.

On the Grant Administration front, management has recently worked with KPMG consulting to develop a formal grant administration policy and procedure, including a related policy and procedures checklist, to establish overall governance of the grant processes. This policy is currently in draft form as of October 2025. The policy includes guidance for alignment with federal regulatory requirements should NES receive Federal Awards. The policy also includes guidance for all phases of the grant lifecycle and defines roles and responsibilities across the grant lifecycle stages.

These initiatives mark a transformative shift in NES' approach to resource management, compliance, and long-term impact. By consolidating grant-related activities and sustainability efforts under a unified leadership, the organization is positioned to provide clear governance, streamline processes, and improve accountability across departments. This operating model is designed to enable more effective tracking of funding sources, ensuring regulatory compliance, fostering stronger relationships with grantors and stakeholders, and promoting synergies between

financial stewardship and ecological responsibility, aligned with NES' values and environmental commitments.

II. Overview of Results

During the course of our work, no reportable findings were identified. The design and operating effectiveness of controls evaluated during the audit appear adequate and reasonable. However, due to inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Therefore, absolute reliance should not be placed on these controls.

We appreciate the cooperation extended to us by personnel at NES and are pleased to be of service. If there are any questions or comments regarding this report, please contact us. Contact information for the Director and Assistant Director of Internal Audit responsible for this work is presented below.

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Nashville Electric Service

FY2026 Travel Expenses

Internal Audit Report

For the Period: July 1, 2024 through June 30, 2025



CONFIDENTIAL

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Nashville Electric Service

Travel Expenses
Internal Audit – FY2026

Table of Contents

I. Executive Summary.....	2
II. Overview of Results	3

Report Distribution:	<u>Name</u>	<u>Title</u>
	Tabith Beach	Corporate Controller
	Brian Covington	Accounting Supervisor

Additional Distribution:	<u>Name</u>	<u>Title</u>
	Rob McCabe	Audit Committee Chair
	Teresa Broyles-Aplin	President & CEO
	Brent Baker	EVP Chief Operations & Innovation Officer
	David Frankenberg	VP CFO
	Laura Smith	VP Chief Legal Officer & General Counsel
	Ron Womble	VP CIO

I. Executive Summary

Introduction

Baker Tilly Advisory Group, LP has performed certain internal audit services for Nashville Electric Service (NES) related to travel expense reimbursement process. Our fieldwork was performed in October 2025. The audit covered the period July 1, 2024 through June 30, 2025. Our primary objective was to independently and objectively test and assess the internal controls related to **Travel Expenses**. Our services were performed in accordance with the terms of our contract with an effective date beginning on June 1, 2021. We conducted this audit in accordance with Generally Accepted Government Auditing Standards and the *International Standards for the Professional Practice of Internal Auditing*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Scope

We evaluated the design and operating effectiveness of key controls. Areas of audit emphasis included, but were not limited to, determining whether:

- Policies and procedures are documented and address travel expenses, cancelled trips, relocation expenses, and reimbursement requirements,
- Expense statements are supported by proper documentation in accordance with NES policy,
- Travel expenses are reimbursed in accordance with NES policy,
- Travel expenses and reimbursements are logged and recorded in the general ledger accurately and completely,
- NES per diem rates paid to employees for meals that exceed the federal per diem rates are reported as taxable income to the employee, if applicable,
- Insurance coverage stated in the travel policy is in place and current,
- Relocation expenses are supported by proper documentation and approved in accordance with NES policy, and
- Relocation expenses are repaid to NES by employees who voluntarily resign within two years for date of employment in accordance with NES policy.

Total travel expenses during the period were \$514,052.

Corporate Governance, Culture and Stewardship Considerations

We considered corporate governance, culture, and stewardship initiatives that may have an impact on the scope of the audit. We did not identify any extraordinary initiatives that had an impact on

the audit scope. Inherently, many of the procedures performed in our audit are focused on governance activities.

II. Overview of Results

During the course of our work, no reportable findings were identified. The design and operating effectiveness of controls evaluated during the audit appear adequate and reasonable. However, due to inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Therefore, absolute reliance should not be placed on these controls.

We appreciate the cooperation extended to us by personnel at NES and are pleased to be of service. If there are any questions or comments regarding this report, please contact us. Contact information for the Director and Assistant Director of Internal Audit responsible for this work is presented below.

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NES

Enterprise Risk Management (ERM)

November 2025

Baker Tilly Advisory Group, LP and Baker Tilly US, LLP, trading as Baker Tilly, are members of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. Baker Tilly US, LLP is a licensed CPA firm that provides assurance services to its clients. Baker Tilly Advisory Group, LP and its subsidiary entities provide tax and consulting services to their clients and are not licensed CPA firms.



Enterprise Risk Management 2025

- ERM Purpose
- ERM Elements and Scoring
- Detail Update
- Heat Map
- Risk Tolerance
- Highest Rated Individual Risks
- Discussion



ERM Defined

ERM is a framework that enables an organization to visualize, assess, and manage **significant** risks that may adversely impact the ability to meet **key** organizational objectives.

- High-Level
- Manageable
- Entity-Wide
- Aligned with strategic goals



ERM - Purpose

- Provides a framework to facilitate risk identification, mitigation planning, and communication with the Board and other stakeholders
- Assists Management with their responsibility for managing risks and strategic planning
- Assists the Board with their responsibility for oversight of risk management
- Resource Planning



Risk Assessment Elements

- Impact
- Likelihood
- Inherent Risk
- Residual Risk
- Risk Tolerance



NES ERM Scoring

- Risk Quantity (i.e., Inherent Risk)
 - Comprised of Impact and Probability (Likelihood) Rating
- Risk Management Quality
 - Assessment of how well the Risk Response (i.e., controls) mitigate the risk, in consideration of the following activities:
 - Policy, KPIs, Reporting, Monitoring, Response
- Aggregate Risk (i.e., Residual Risk)
 - A factor of Risk Quantity and Risk Management Quality
- Average Aggregate Risk
 - Average score for each of the Key Risk Categories



2025 ERM – Detailed Changes

See Handouts

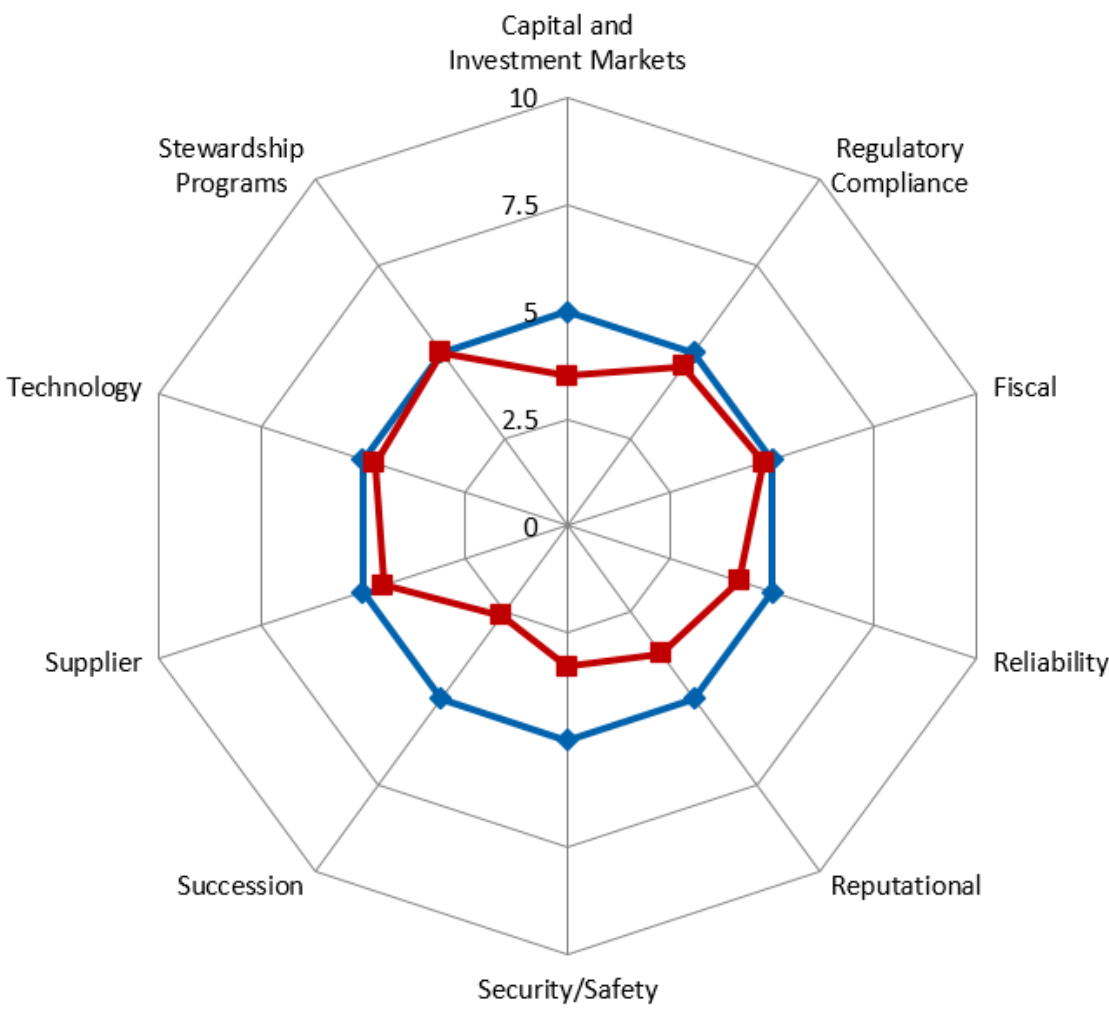
2025 ERM – Heat Map

Impact	High	CI15, CI16, CR28, FR12, FO53, RL2, RL4, RL6, RL9, RL10 , RL27, RP14, RP18, RP26, SS3, SS11, SS21, SP7, SP8, TE25	CR68, RL51 , RP22, SP70 , TE23, TE24, TE64	TE63	Bold - Aggregate greater than 5 Normal - Aggregate 5 or below <i>Italics</i> - Aggregate not scored CI - Capital and Investment Markets CR - Compliance Regulatory FB - Fiscal Budget FR - Fiscal Revenue FA - Fiscal Asset Protection BM - Fiscal Benefit Management FJ - Fiscal Job Costing FO - Fiscal Other RL - Reliability RP - Reputational SS - Security/Safety SC - Succession SP - Supplier TE - Technology ST - Stewardship
	Medium	CR43, FB58, FR52, FA5, FA39, BM45, BM56, BM61, FO35, RL66, RP44, RP55, TE62	CI20, FB40, FR31, FA19, FA46, BM32, FJ17, FJ36, FJ38, FO34, FO48, FO57, FO69, RP33, RP47, RP49, SC1, SP13, TE29, TE30	RP42	
	Low	FB54, FR50, BM36, FB60, SC65	FO41, FO59	ST67	
		Low	Medium	High	
		Probability			
		24/54			

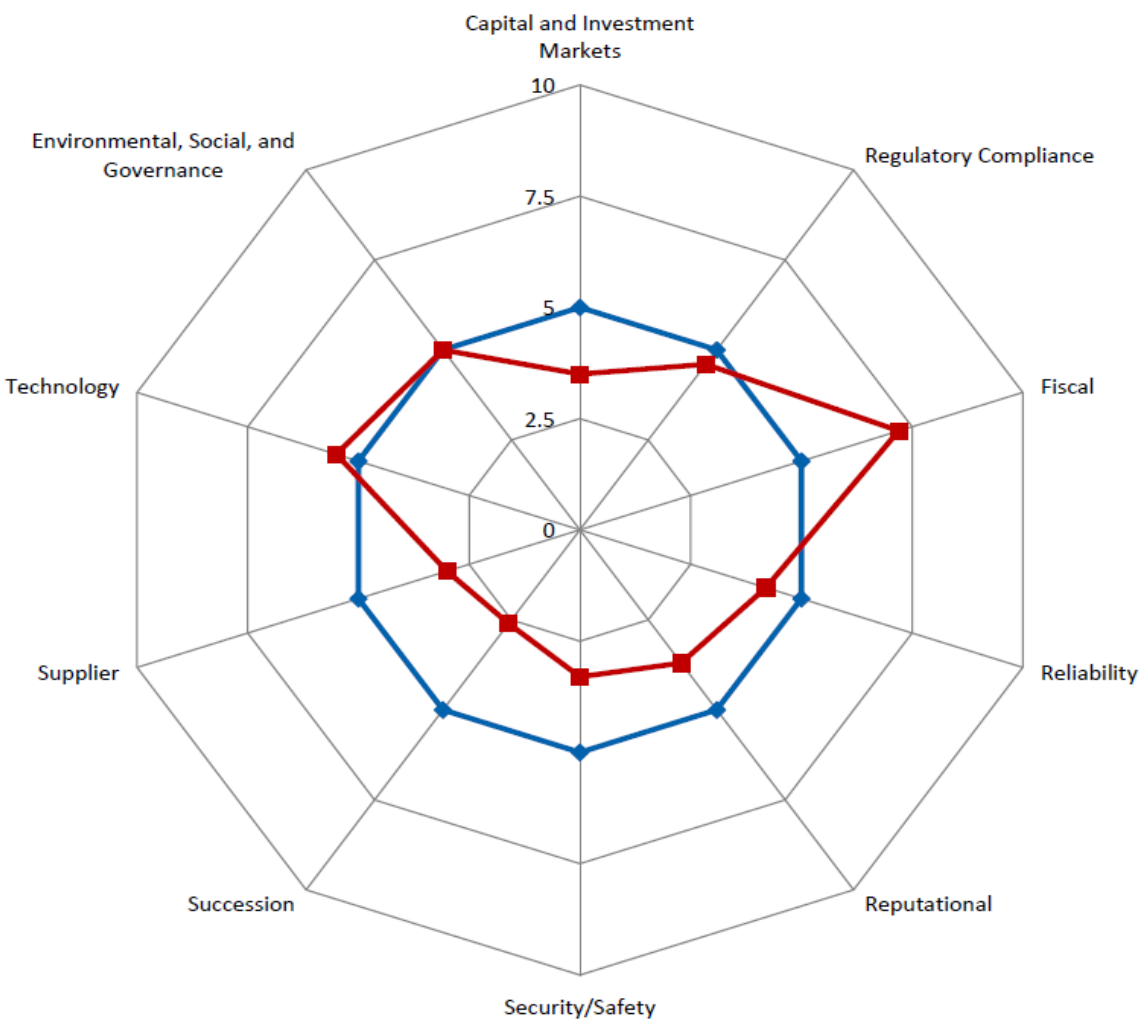


2025 ERM – Average Aggregate Risk

2025 Report



2023 Report



2024 Not shown, details next slide
25/54



2025 ERM – Average Aggregate Risk

	2025	2024	2023	2022
Capital/Investment Markets	3.5	3.5	3.5 	3.6
Compliance - Regulatory	4.6	4.6	4.6	4.6
Fiscal	4.8 	4.6 	7.2 	5.2
Reliability	4.2	4.2	4.2 	4.1
Reputational	3.7	3.7	3.7	3.7
Security/Safety	3.3	3.3	3.3	3.3
Succession	2.6	2.6	2.6	2.6
Supplier	4.5 	3	3	3
Technology	4.7 	5.5	5.5 	6
Stewardship Programs	5	5	5	5



ERM – Highest Rated Individual Risks

Risk #	Risk Cat.	Risk Desc.	2025 Agg. Risk	2024 Agg. Risk	2023 Agg. Risk
70	Supplier	TVA governance disruption/policy shifts	7.6	n/a	n/a
64	Technology	Poorly aligned software solutions	6.4 	10	10
10	Reliability	Disturbance of bulk electric system/NERC Fines	5.7	5.7	5.7
51	Reliability	Inadequate distribution system maintenance/vegetation management	5.2	5.2	5.2
68	Compliance - Regulatory	Non-compliance with regulatory requirements	5.2	5.2	5.2
63	Technology	Data leakage and cybersecurity threats	5.0 	n/a	n/a
12	Fiscal - Revenue	Erroneous or untimely billing	4.8 	6.4	6.4
53	Fiscal – Other Operating	Encompass project overruns (2023/24) <i>Major capital project overruns (2025)</i>	4.8 	6.4 	11





ENTERPRISE RISK MANAGEMENT

November 20, 2025

As in 2024, Internal Audit facilitated Enterprise Risk Assessment discussions with the NES leadership team. Each Vice President and the CEO identified organizational risks affecting their area of responsibility, ranked the impact and probability of occurrence of the risks, and identified the risk responses in place to manage the risks. **Quantity of Risk** metrics were assigned, with 1 representing low risk and 5 representing highest risk. Risks were classified into the following Key Risk Categories:

- Capital & Investment Market
- Compliance - Regulatory
- Fiscal
- Reliability
- Reputational
- Security/Safety
- Succession
- Supplier
- Technology
- Stewardship Programs

The risk responses, currently in place or planned, address the risks identified. These responses were provided by the senior management team and assigned a **Quality of Risk Management** metric. Quality of Risk Management was assessed for moderate to high-risk areas (i.e., Quantity of Risk greater than 2), or other risks as determined appropriate, on a 5-point scale, with 1 indicating Strong Management and 5 indicating Weak Management. The Quality of Risk Management rating considers the existence of Board approved policies or periodic reporting of risk management activities to the Board, tracking of relevant performance indicators, effective management reporting, on-going monitoring activities, and the success of the risk management activities in reducing the residual impact of the risk.

The product of the **Quantity of Risk** and **Quality of Risk Management** results in **Aggregate Risk**. To allow assessment of Aggregate Risk, and in recognition that risk cannot be eliminated, it is necessary to compare Aggregate Risk with the organization's **Risk Tolerance**. Management set Risk Tolerance at 5, which at a minimum, requires Strong Management of Highest Risks or Satisfactory Management of Medium Risks. Aggregate Risk for the ten Key Risk Categories, as compared to Risk Tolerance, is depicted on page 3.

ENTERPRISE RISK MANAGEMENT

November 20, 2025

As the chart indicates, nine of the ten Key Risk Categories fall within the Risk Tolerance and only one, Stewardship, is equal to the risk tolerance. The following provides a summary of the areas of significance:

- The Risk Category for Stewardship was added in 2021. The organization is currently implementing KPMG recommendations regarding Stewardship strategy and framework. Initiatives that align with the Stewardship strategy, along with KPI's, monitoring, and disclosures are under development. The Average Aggregate Risk in this area remained constant from the prior year at 5.0.
- Technology Risk has somewhat lessened over the prior year, which is primarily attributable to the successful deployment of the Encompass project, but continues to rate moderately high because of the need to align software solutions for many of the existing applications. The Average Aggregate Technology Risk decreased from 5.5 to 4.7.
- A new risk was added to the Supplier Risk Category to address governance changes and possible policy changes at TVA and the organization's response preparedness. The Average Aggregate Risk for the Supplier Category increased from 3 to 4.5 and remains below the risk tolerance level.

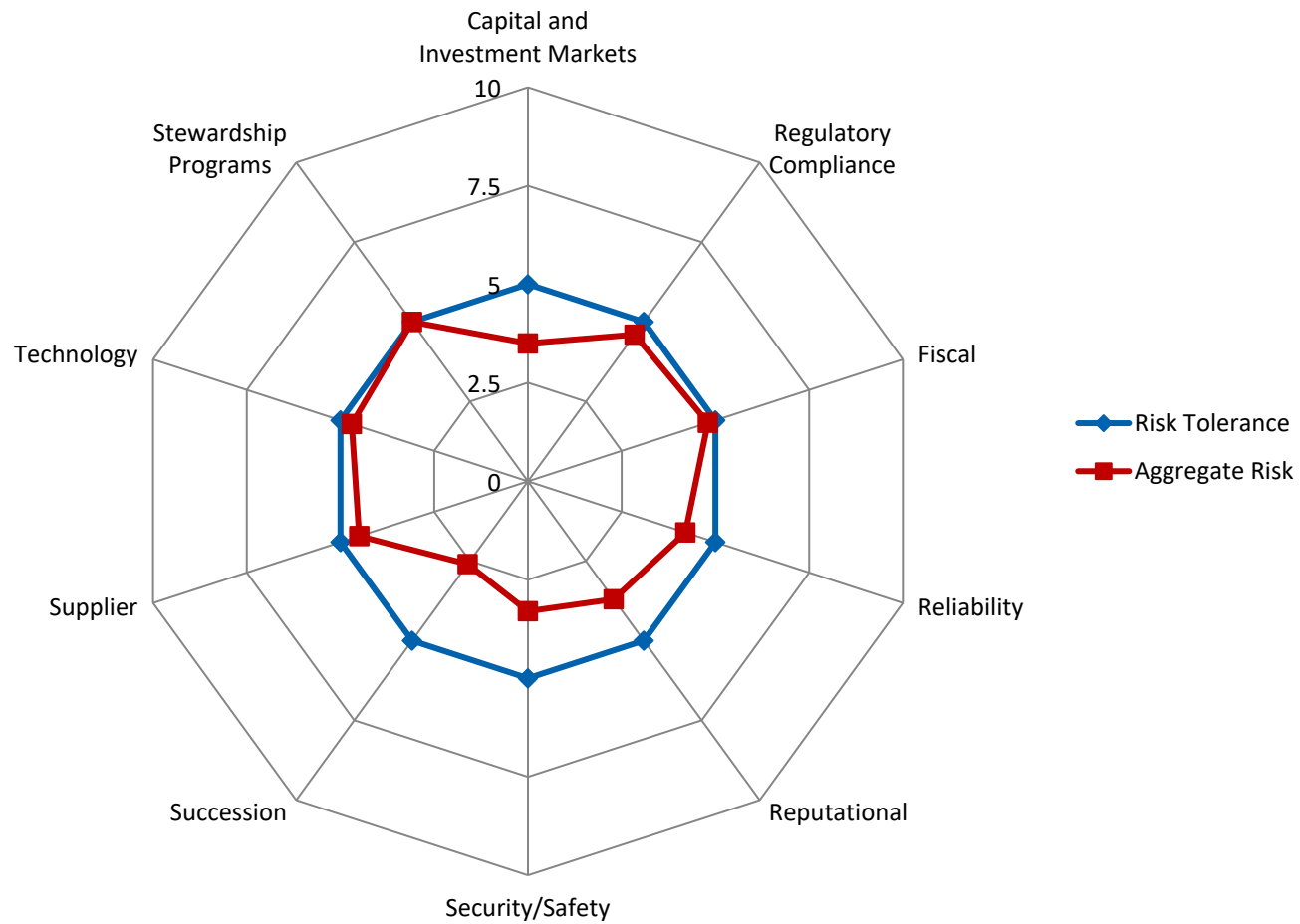
The highest rated individual risks based on individual aggregate score are:

Risk #	Risk Category	Risk Description	Aggregate Risk	Page #
70	Supplier	TVA governance disruption/policy shifts	7.6	18
64	Technology	Poorly aligned software solutions	6.4	24
10	Reliability	Disturbance of bulk electric system/NERC fines	5.7	13
51	Reliability	Inadequate distribution system maintenance/vegetation management	5.2	13
68	Compliance – Regulatory	Non-compliance with regulatory requirements	5.2	5
63	Technology	Data leakage and cybersecurity threats	5.0	20

Individual risks comprising each Key Risk Category, with expanded commentary, begins on page 4.

ENTERPRISE RISK MANAGEMENT

November 20, 2025



ENTERPRISE RISK MANAGEMENT BY RISK CATEGORY

November 20, 2025

Risk Category	Risk No.	Objective	Risk	Impact High, Med, Low	Probability High, Med, Low	Risk Quantity	Risk Response (Orange Print indicates proposed response which is not currently being performed or executed)	Risk Management Quality (Red and Orange Risks Only)	Aggregate Risk (Red and Orange Risks Only)	Responsible VP
Capital/Investment Market	15	Protection of bond rating	Inadequate funding of the bond reserve.	High	Low	3	Monthly reconciliation of reserve fund and active communication with banking institutions. Long range plan and rate strategy to ensure sufficient liquidity.	1.3	3.9	David Frankenberg
Capital/Investment Market	16	Safeguarding of assets	Company funds invested in risky assets or not appropriately invested in assets designed to defease long-term obligations.	High	Low	3	Investment policy dictates nature of appropriate investments. Investment Committee ensures compliance with policy for investments in the Pension and OPEB trusts. NES contracts with an Investment Advisor to achieve long-range goals. Investment activities of the operating funds are reported to the Board at least quarterly.	1	3	David Frankenberg
Capital/Investment Market	20	Protection of bond rating and cost of capital	Inadequate results or messaging to bond ratings agencies to maintain current bond ratings.	Med	Med	2	Annual financial updates to EMMA and frequent communication with the rating agencies. Involvement of Financial Advisor to stay current with ratings agency trends and model scenarios for evaluation of future impacts. Respond to changes appropriately.	-	-	David Frankenberg

Capital/Investment Market Average Aggregate Risk: 3.5

ENTERPRISE RISK MANAGEMENT BY RISK CATEGORY

November 20, 2025

Risk Category	Risk No.	Objective	Risk	Impact High, Med, Low	Probability High, Med, Low	Risk Quantity	Risk Response (Orange Print indicates proposed response which is not currently being performed or executed)	Risk Management Quality (Red and Orange Risks Only)	Aggregate Risk (Red and Orange Risks Only)	Responsible VP
Compliance - Regulatory	68	Compliance with Federal, State, and Local regulatory requirements	Non-compliance with existing regulatory requirements (e.g., Civil Rights, ADA, FLSA, FMLA, HIPAA, OSHA, TOSHA, EPA, NERC, FERC, GASB, IRS, Sales and Use tax, data privacy)	High	Med	4	Responsibility for remaining compliant is distributed amongst all Executives, Vice Presidents, and Managers since there are various requirements that impact each department. Policies, procedures, and compliance programs (as necessary) have been designed and documented to comply with Federal, State, and local laws. Policies and procedures are reviewed and updated, as necessary. Leadership in each department gets regulatory updates by attending trainings and conferences, receiving updates from government agencies or professional organizations, and/or through participation in professional associations. Periodically third-parties are hired to perform compliance assessments.	1.3	5.2	Teresa Broyles-Aplin
Compliance - Regulatory	28	Effective tracking of proposed legislation impacting NES	Passage or existence of legislation adverse to NES or of which NES is not aware.	High	Low	3	Tracking of federal legislative developments through associational and professional affiliations; review of industry and topic-specific publications to keep abreast of legislative developments. Regular communication with General Assembly directly through NES' lobbyist, and through associational affiliations regarding legislation affecting NES and the industry. Regular communication with members of Metro Council and review by NES of each Council agenda.	1.3	3.9	Laura Smith
Compliance - Regulatory	43	Compliance with State Public Records Law	NES unable to meet volume of public record requests filed.	Med	Low	1	The Legal Department reviews the Public Records Policy periodically to ensure that it complies with current Tennessee law. Public records requests are processed by two paralegals in the Legal Department, with oversight of an NES lawyer as appropriate.	-	-	Brent Baker Laura Smith

Compliance - Regulatory Average Aggregate Risk: 4.6

ENTERPRISE RISK MANAGEMENT BY RISK CATEGORY

November 20, 2025

Risk Category	Risk No.	Objective	Risk	Impact High, Med, Low	Probability High, Med, Low	Risk Quantity	Risk Response (Orange Print indicates proposed response which is not currently being performed or executed)	Risk Management Quality (Red and Orange Risks Only)	Aggregate Risk (Red and Orange Risks Only)	Responsible VP
Fiscal Budget/Forecasting	40	Proper prioritization of projects and expenses	Customer funds are not spent on the highest impact and highest importance projects. Resulting impact is that necessary projects are not executed or additional customer funds are required resulting in related operational costs, increased legal risk/costs, increased occupational hazards, and degraded system performance.	Med	Med	2	Work management review of projects compared to budgets. An additional review process has been implemented to evaluate the priority of budget change requests (BCR) as compared to existing projects. The vehicle needs of the Operations team are evaluated annually as the capital budget is approved. Core business practices are constantly evaluated for more efficient use of resources. Asset Management Strategy process and software prioritizes tasks and projects by CBA and weighs projects by strategic plan objectives. Frequent capital prioritization meetings to review forecasts and overall capital trends which serves as a feeder to the BCR Process. Use of prioritization software in combination with long-term project plans maintained by Engineering. Cross sectional reviews. FY26 initiative around development of formal capital prioritization methodology.	-	-	David Frankenberg
Fiscal Budget/Forecasting	54	Ensure Contributions in Aid to Construction (CIAC) are applied consistently	Contribution calculations may not be applied consistently resulting in over or under collection.	Low	Low	1	CIAC calculations were reviewed in FY24 due to material price escalation. Calculation was modified to use the most recent purchase price for items when calculating customer invoice to ensure that we are collecting appropriate CIAC.	-	-	Daniel Johnson; Vaughan Charles
Fiscal Budget/Forecasting	58	Reliable forecasting of revenue, power cost, and expenses	Poor data and flawed methodologies result in suboptimal allocation of resources and inability to operate effectively and achieve financial metrics.	Med	Low	1	Comparisons and analyses to prior years and prior year forecasts. Ongoing training; research of industry standards and practices. Data management technology improvements under consideration. Increased focus on long-range plan, frequent departmental and corporate reviews, and adherence to targets.	-	-	David Frankenberg

Fiscal Budget/Forecasting Risk Quantity Med or Less

ENTERPRISE RISK MANAGEMENT BY RISK CATEGORY

November 20, 2025

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Fiscal – Revenue	12	Timely and accurate billing of electronic customers	Erroneous or untimely billing. (Inability to read the meters. Errors on bills due to meter reading errors, equipment failure, improper implementation of rate changes, or other employee errors. Customer bills not sent on a timely basis).	High	Low	3	New advanced meter and billing system deployed in FY25. AMI meters fully deployed. Metrics tracked weekly and new Center of Excellence has been established. NES follows the meter reading schedule to ensure billings are within 28 and 34 days. Process and testing procedures are followed for rate changes and implementations. Exception reports and current mitigation plans, including maintenance process, are reviewed. Access to billing data is restricted. Billing processes are monitored. Processes to monitor customer account changes are performed.	1.6	4.8	David Frankenberg; Brent Baker; Jack Baxter
Fiscal – Revenue	31	Fiscal responsibility must be ensured	Weather negatively impacting revenues.	Med	Med	2	Revenues are forecasted using “average” historical weather data and allows for some conservatism to handle weather spikes. In years where weather conditions result in less revenue than anticipated, expense reduction strategies are implemented to achieve overall margin and cash goals. In recent years, most of our rate increases have gone into the service charge and other fixed charges in order to ensure collection of fixed costs and reduce weather risk variable revenue. Active FEMA process ensures maximum recoverability of storm costs and budget process evolving to consider more recent trends of storm funding.	-	-	David Frankenberg
Fiscal – Revenue	50	Maintain accurate records of attachments	Not collecting the right amount of revenue, and inability to track attachments (construction and removals).	Low	Low	1	Physical inventories of the number of attachments are being performed on a 5-year cycle and stored in the Geographical Information System (GIS) as the system of record. All attachment applications from 3rd parties are initiated and tracked using Overhead Utility Data Software (SPIDA). Attachment status reports are periodically produced using the National Joint Utilities Notification system (NJUNS).	-	-	Daniel Johnson
Fiscal – Revenue	52	Maintain accurate records of streetlights	Not collecting the right amount of revenue; not calculating the appropriate tax; failure to properly maintain lighting installations.	Low	Med	1	Streetlight and private light assets are recorded and assigned to customers in the Geographical Information System (GIS). Installation and removal of assets within GIS is driven by completed work requests. Every 3 to 5 years a complete inventory of streetlight assets is performed and GIS is adjusted to match lighting infrastructure in the field. The streetlight information in GIS is periodically reconciled to the Customer Information System (CIS) and Ellipse. The street light facility charge and percentage as well as the private light facility charges are reassessed annually to ensure costs are recovered through revenue appropriately. Each new commercial/light account is evaluated for the application of sales tax. Streetlight and private light maintenance is driven by customer requests. These work requests are prioritized and dispatched to crews to work via PragmaCAD. A process is in place to ensure the proper streetlight materials are used in order to uphold the contractual obligation to provide the customer with agreed upon lighting services. NES is in the first of a 5-year LED Metro streetlight conversion plan using PATH Group to complete the work and is ahead of schedule. At the conclusion of the project, all Metro streetlights will be converted and will include a Smart Meter that will be used to bill actual usage and notify NES of outages in real-time. NES is continuing to repair/replace non-working lights as we are notified of outages.	-	-	Vaughan Charles; David Frankenberg; Brent Baker

Fiscal - Revenue Average Aggregate Risk: 4.8

ENTERPRISE RISK MANAGEMENT BY RISK CATEGORY

November 20, 2025

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Fiscal – Asset Protection	5	Business continuity/loss protection	Loss of a Service Center due to natural disaster (e.g., flood, tornado, earthquake).	Med	Low	1	Service Center redundancy. Adequate insurance to cover costs of loss. Team member training for responding in the event of a disaster. Flow Monitoring Devices were installed at WSC toward the end on 2021. These monitors will notify NES personnel in the event of high water levels.	-	-	Vaughan Charles; Brad Heck
Fiscal – Asset Protection	19	Safeguarding of assets	Inadequate insurance coverage obtained or incorrect statement of values provided.	Med	Med	2	Adequacy of insurance coverage is evaluated by Senior Management annually. Professional insurance brokers provide a gap analysis during that process. A benchmarking study is completed every few years to compare against other entities. There is Management review of statement of values. The board approves the insurance coverage for each renewal period.	-	-	David Frankenberg
Fiscal – Asset Protection	39	Accountability, responsiveness and quality must be proactively embedded into the NES culture	Increased inventory adjustments could raise stores on-cost.	Low	Med	1	Frequent inventory counts mitigate this risk. Fastest moving items and high value items are counted daily/monthly to reduce this risk. Accounting developed a revised process for CIAC calculations related to transformer prices significantly impacted by inflation in 2023. Improved Ellipse system and FY26 initiatives around reporting and analyses.	-	-	David Frankenberg
Fiscal – Asset Protection	46	Control costs and maintain competitive rates	Theft (materials, copper wire, service/power diversion, etc.).	Med	Med	2	We continue to add cameras and perimeter intrusion detection to 2 substation per year. We are replacing the Magnetometer(metal detector) with a newer model. Facilities and Security is installing gate arms at each center to prevent unauthorized vehicles from entering without proper identification. All individuals will be required to show or scan a valid ID before gaining access, ensuring that only authorized personnel are allowed on the premises. This added layer of security is part of our ongoing efforts to protect our facilities and to enhance the safety of all employees. We are continuing to work towards the best solution for gaining access.	-	-	Trish Holliday; Jack Baxter

Fiscal - Asset Protection Risk Quantity Med or Less

ENTERPRISE RISK MANAGEMENT BY RISK CATEGORY

November 20, 2025

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Fiscal – Benefit Management	36	Producing reasonable estimates	Inaccurate information being used for the lag studies for self-insurance reserves or errors in those calculations.	Low	Low	1	Monthly reconciliations, third party reporting, and management review of lag studies. Loss run is evaluated on a bi-annual review. Renewal application for self-insurance is reviewed annually by State of TN.	-	-	David Frankenberg
Fiscal – Benefit Management	45	Improved accountability, quality and efficiency	Costly errors in processing employee benefit claims/payments.	Med	Low	1	We expect employees to review all health claims and EOB's. Our Stop Loss insurer also audits some claims. Provide updated data to our EAP TPA. Two signatures required for the review and processing of Aid To Education reimbursement checks. UMR provides utilization management and prior authorization to ensure appropriateness of care. UMR reports quarterly with fees at risk for financial claim accuracy, claim procedural accuracy, and claim payment accuracy.	-	-	Trish Holliday
Fiscal – Benefit Management	56	Producing reasonable estimates	Errors in the calculations performed by the actuaries for the OPEB and Pension work or inaccurate information being provided to them.	Med	Low	1	Results of actuarial work are reviewed for reasonableness. Changes in assumptions and other factors impacting the calculation are discussed with the actuaries. Controls around integrity of personnel data being provided to actuaries rest with HR. Staff receives continuing education and business related information regarding pension administration.	-	-	David Frankenberg; Trish Holliday
Fiscal – Benefit Management	60	Safeguarding of assets	Pension funds not being properly paid out by the administrator.	Low	Low	1	Accounting ensures quarterly funding of pension obligation. HR monitors appropriate payment to individual retirees and does a monthly reconciliation.	-	-	Trish Holliday
Fiscal – Benefit Management	61	Improved accountability, quality and efficiency	Incorrect or undocumented payroll deductions in a number of areas.	Med	Low	1	Routinely conduct sample audits within the HR department to identify and address processes and issues that need to be adjusted. HR and Accounting meet bi-weekly to assess payroll errors and opportunities to improve and a report is sent to the CPO and CFO.	-	-	Trish Holliday
Fiscal – Benefit Management	32	Fiscal responsibility must be ensured	Investment market underperformances, changes in benefits, and changes in actuarial assumptions negatively impacting the funding status of the retirement liabilities and resulting in significant increases in cost and long-term cash flow requirements to the company.	Med	Med	2	Investment Committee reviews the investment portfolio for the trusts and ensures adequate diversification. A professional consultant advises the Committee. Active reviews of assumptions. Coordination with retirees around status and rationale. Active conversation with actuaries and board around assumptions and impact. Effective 2012, Defined Contribution Plan was implemented for new employees. The investment risk for these retirement funds is minimized for the company and shifted to the employees in the plan. However, Investment committee maintains fiduciary oversight of the DC plan investments.	-	-	David Frankenberg

Fiscal - Benefit Management Risk Quantity Med or Less

ENTERPRISE RISK MANAGEMENT BY RISK CATEGORY

November 20, 2025

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Fiscal – Job Costing	17	Material and equipment availability. Better information/data enables efficient resource utilization	Stock outs of essential materials. Lost production in operations due to non-productive time waiting for materials.	Med	Med	2	ABC reports are used in monitoring key materials. Team investigates materials and tool shortages. Inventory smoothing reports are used to reduce the risk of incorrect material location. Risk further reduced by use of work order requirements. A new process is being followed to reduce the approval lead time for transformers and other materials. Blanket contracts developed for transformer purchases. Monthly critical materials discussions held as well as weekly updates. System reporting enhancements being explored.	-	-	David Frankenberg
Fiscal – Job Costing	37	Accurate accounting of projects	Labor costing misstatements.	Med	Med	2	Supervisor approval of timesheets. Reconciliations of work orders by the centers. Ongoing review of data provided. New payroll/labor reports developed in Budgets & Rates that reflect monthly reporting. Labor review and utilization reports are compiled by B&R and sent to VPs and Managers for review quarterly. Automated labor utilization reports are developed. Electronic timesheet approval process has been implemented. Implementation of mobile solutions. Centralized timekeeping provides consistency across departments. The project management process for larger projects ensures communications between the different operational units and enhances accountability for job costing.	-	-	David Frankenberg
Fiscal – Job Costing	38	Maintain proper clearing rates for overhead	Inadequate monitoring of overhead rates.	Med	Med	2	Rates are reviewed at least semi-annually and are subject to managerial approval.	-	-	David Frankenberg

Fiscal - Job Costing Med or Less

ENTERPRISE RISK MANAGEMENT BY RISK CATEGORY

November 20, 2025

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Fiscal – Other Operating	34	Ensuring accuracy of the power bill	Inadequate process in place to read meters and reconcile to the TVA Power Bill.	Med	Med	2	Quality control management of billing data and calculations, daily reconciliation, and monthly reconciliation of TVA and NES wholesale metering data and charges. Automated monthly reporting developed to compare MDM and Power Invoice interval data to ensure wholesale metering accuracy. In addition, an approval workflow process was developed to ensure proper review and approval of power invoice line items. In addition, additional reporting and enhancements continue to be developed in order to identify billing errors more quickly and more granular. Also, NES and TVA has a monthly routine call with appropriate billing personnel to ensure wholesale meters are reading and responding appropriately.	-	-	David Frankenberg; Brent Baker; Jack Baxter
Fiscal – Other Operating	35	Ensure proper vendor payments	Inadequate procedures to ensure expenditures are valid and properly authorized.	Med	Low	1	Internal controls surrounding purchase orders, invoice review, and authorization levels ensure appropriateness. Departments are responsible for contract administration and determining that payments are made in accordance with RFP or Bid contract terms.	-	-	David Frankenberg
Fiscal – Other Operating	41	Proper oversight of departmental purchasing decisions	Vendor specifications being too narrowly focused, resulting in limited competition.	Low	Med	1	Specifications are approved by the departmental vice president. Procurement requires documentation for sole-source arrangements and sole-brand preferences for significant purchases (A items). These are heavily scrutinized by management and highlighted for the Board. New process to ensure VPs are made aware of RFP team members.	-	-	David Frankenberg
Fiscal – Other Operating	48	Protection against legal risk	Ineffective protection in NES contracts against legal risk.	Med	Med	2	Terms and conditions are periodically evaluated and revised as needed. As the situation may require, NES engages outside counsel to provide expert advice on contract negotiations.	-	-	Laura Smith
Fiscal – Other Operating	57	Accuracy of fixed asset records	Purchased assets are not properly authorized, received, capitalized, depreciated, disposed of, or impaired.	Med	Med	2	Proper controls around the purchase and approval process are in place. Review of account coding and aging reports ensures proper and timely capitalization. Disposals based on estimates. Potential impairment issues monitored by the Controller and communicated to the CFO. CWIP is monitored monthly for projects that need capitalization or expensing. Large projects monitored separately. System issues requiring manual interventions being addressed with FY26 patches.	-	-	David Frankenberg
Fiscal – Other Operating	59	Accountability in departmental expenses	Expense Management - Managers not held accountable.	Low	Med	1	Management performs monthly and quarterly budget variance reporting, and a Management Discussion & Analysis (MD&A) process and review. Also, an in depth cross-sectional review is performed quarterly, at mid-year and annually, with a report provided to Executive Management. Monthly budget reporting provides management with analytics. Monthly distribution of departmental performance with quarterly business reviews.	-	-	David Frankenberg; Brent Baker
Fiscal – Other Operating	69	Monitoring and responding to economic trends	Inflation and cost escalation could deteriorate the company's financial position and cause accelerated rate increases.	Med	Med	2	Active departmental variance reviews and explanations. Budget process and prioritization. Expense reductions in times of escalating costs. Business improvement team considered for development in FY26.	-	-	David Frankenberg
Fiscal – Other Operating	53	Managing capital project costs	Major capital projects could experience significant cost overruns due to issues with contract development, project management, change management, or cultural adoption.	High	Low	3	Regular meetings on Central substation with periodic board updates. Quarterly capital review sessions company-wide and VP monthly capital prioritization meetings.	1.6	4.8	David Frankenberg

Fiscal - Other Operating Average Aggregate Risk: 4.8

Total Fiscal Average Aggregate Risk: 4.8

ENTERPRISE RISK MANAGEMENT BY RISK CATEGORY

November 20, 2025

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Reliability	2	Capital infrastructure capable of meeting developing needs of service area	Delays in power system expansion projects which result in degradation of system reliability and increased costs due to unavailability of system clearances and "stop gap measures". Growth that exceeds the NES plan.	High	Low	3	Continuously study the power system, models and evaluate solutions to impending loading conditions. Participate in TVA power system planning and operations meetings. Meet requirements of TPL standards applicable to NES. Monthly monitoring and management of capital projects, including evaluation of schedules and material availability. 20 year system planning study complete, including the downtown network. No major capacity projects indicated within next 5 years. Implemented the Project Management Model and improving the Capital Budgeting Process which will help better manage projects and determine what's most important to the company.	1.3	3.9	Jack Baxter; Vaughan Charles; Daniel Johnson; Brad Heck
Reliability	4	Ensure Outage Management System is accurate and up to date, is operationally effective and highly available	Interfaced systems can cause performance degradation and can affect CADOPS system and timely response to outages.	High	Low	3	System Availability and Resiliency CADOPS was upgraded in early 2022 and is running on a manufacturer-supported release. Real-time mirroring of all CADOPS data to the Disaster Recovery (DR) site ensures redundancy. In the event of a Production system failure, the DR system can be made available within 4 hours. Monitoring and Support Additional monitoring has been implemented through Solarwinds to detect system issues promptly. IT and System Operations have developed an enhanced support plan with clear roles and responsibilities for timely issue resolution. IT Oversight Architecture Review Board (ARB), IT Governance Committee (ITGC), another other IT governance and oversight structures ensure that only appropriate and approved integrations, interfaces, and connectivity to other applications are allowed. Data Integrity and GIS Accuracy As part of the Project Management Model, all as-builts are reviewed to ensure the GIS model is accurate and up-to-date. Critical Table Archiving System Operations and IT have implemented automated archiving of critical CADOPS tables to support rapid restoration in case of complete system loss. Tables are archived on varying schedules: some daily, more dynamic tables hourly. Archives are stored on the Operations Network, which is independent of all corporate IT systems.	1.3	3.9	Ron Womble; Jack Baxter
Reliability	6	Service restoration	Prolonged outages, including those caused by natural catastrophes or terrorist events.	High	Low	3	System-wide maintenance strategy designed to ensure full compliance with all applicable NERC/SERC reliability standards/requirements for the DP, TO, TP and TOP functions implemented. Changed locks on all substations and control buildings. Prioritized substation camera installation based upon risk. Seven TVA-NES delivery point substations have 79 cameras installed. Remaining TVA delivery point camera installation are scheduled. System Operations Disaster Recovery (DR) site north of the Cumberland River provides flexibility of operating from the Main Control Room or the DR site. System Control and Service Dispatch can report to either site whether or not bridges crossing the river are open, allowing full staffing during such an event. Emergency Response processes/procedures are reviewed annually. Contingency plans developed to deal with major flooding of Cumberland River. Reducing, monitoring, and sharing through mutual aid and emergency restoration plan. Residential customer satisfaction survey includes reliability questions. Commercial customers' reliability issues are addressed in Energy Services Engineering section. Frequent outages continue to be investigated and addressed.	1	3	Teresa Broyles-Aplin

ENTERPRISE RISK MANAGEMENT BY RISK CATEGORY

November 20, 2025

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Reliability	9	Commissioning of substations and external complex devices to ensure proper operation	Large capital expenditure high risk systems will not perform as designed.	High	Low	3	Test Section has documented process for commissioning testing.	1.3	3.9	Jack Baxter
Reliability	10	Reliable power	Disturbance of Bulk Electric System, which may result in NERC/SERC imposed fines or penalties. (NERC is a non-government organization which has statutory responsibility to regulate bulk power system users, owners, and operators through the adoption and enforcement of standards. SERC serves as a regional entity with delegated authority from NERC).	High	Low	3	Development/documentation of policies, guidelines and procedures and system-wide maintenance strategy designed to ensure full compliance with all applicable NERC/SERC reliability standards/requirements for the DP, TO, TP and TOP functions implemented. We also have a consultant that does audits of these requirements to further ensure compliance.	1.9	5.7	Teresa Broyles-Aplin; Laura Smith
Reliability	27	Monitor and control of the NES power grid	Inability to know what is going on at the substations from the control room – possible major grid malfunction.	High	Low	3	The new DR site was completed for use in August 2023. The site co-located at one of the service centers which provides for added physical security. The main control room was completed, tested and re-occupied in January 2025. The newly renovated 3rd generation control room has added functionality to assist with monitoring and operating the NES power grid, as well as, allows for future expanded capabilities.	1.3	3.9	Jack Baxter
Reliability	66	Pandemic Management	A large number of employees are unable to report to work due to illness.	Med	Low	1	Employees have been cross-trained on critical functions to ensure proper coverage and operational continuity in the case of employees being out. Many critical functions can be filled through staff augmentation with existing contractors and other third-party resources. A pandemic management team was formed during the COVID pandemic to address issues as they arise and enhance procedures to address future circumstances. The steps taken during that pandemic were effective. In the case of a similar circumstance, we would reform the pandemic management team and implement appropriate protocols.	-	-	Teresa Broyles-Aplin
Reliability	51	Distribution system maintenance programs to limit outages	Inadequate vegetation management and maintenance of the distribution system increasing frequency and duration of outages	High	Med	4	Educate public on the need for appropriate vegetation management. Vegetation management program with trimming guideline and funding to maintain trimming schedule. Prioritization and funding of capital maintenance programs. Pole evaluation and replacement program. The Vegetation Management Section was placed under new management in FY24. This change has resulted in more efficient and streamlined processes. Other changes were made in FY25, however, unforeseen challenges prevented trimming sufficient miles to obtain a 3-4 year trim cycle. However, based on the closing months of FY25 and the beginning of FY26, we are on target to achieve the 3-4 year trim cycle. Created a distribution reliability improvement program in FY25 to focus on under-performing circuits and put added focus on to improve reliability of these circuits. The goal of this cross-functional group is to address 3 to 4 circuits each quarter and track reliability improvements. Vegetation Management has begun a pilot project utilizing satellite imagery and Lidar data to assist with improved trim plans for vegetation management planning.	1.3	5.2	Daniel Johnson; Jack Baxter; Brad Heck

Reliability Average Aggregate Risk: 4.2

ENTERPRISE RISK MANAGEMENT BY RISK CATEGORY

November 20, 2025

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Reputational	14	Proper oversight of company activities	Lack of communication with the Board.	High	Low	3	Monthly Board and Committee meetings and frequent communication with Board members occur throughout each month. A portal was established to ensure convenient and timely information to the Board.	1	3	Teresa Broyles-Aplin
Reputational	18	Accountability, quality, and responsiveness must be proactively embedded into the NES culture	Quotations or proposals modified after submission.	High	Low	3	Purchase order files are scanned within a few weeks of completion. Over 95% of bids are submitted via the website. The system generates the worksheets and bids cannot be modified.	1.3	3.9	Teresa Broyles-Aplin
Reputational	22	Improve Public Image	Inaccurate or unfair media reporting.	High	Med	4	In 2023, the communications team increased the number of outreach opportunities with the community and continues to make NES available to the news, social media, and at public events. As part of the strategy to be local and responsive, NES' management led a communications effort during the Dec. 2023 tornado response and regularly updated the community. In 2025, NES increased the number of Subject Matter Experts who would be available to provide a media interview. As a result of the proactive communications, the local news channels did not have to reach out to NES to get answers during the April 2025 storm. NES provided the information before the news made any requests.	1	4	Brent Baker
Reputational	26	Regular and effective public communication, including officials in NES service area	Inaccurate, inappropriate or untimely communication.	High	Low	3	NES engages in ongoing, proactive communication with all stakeholders as directed by the Strategic Plan, Issue 4. Additionally, vehicles of communications continue to be added to ensure more proactive communications, which include, but are not limited to, quarterly employee news booklets, employee emails, and 24/7 social media monitoring and response. In 2023, NES added Instagram to the list of social media channels on which to provide information. In 2025, NES added automated outage texting to customers and has seen positive results from proactively texting customer. Efforts are under way to continuously improve the outage communication process.	1.3	3.9	Brent Baker Laura Smith
Reputational	33	Accurate financial reporting	Inadequate financial disclosures.	Med	Med	2	Continuing education, consultation with external auditors and on-going technical research of accounting matters. Adequate levels of review. A combination of GASB and GAAP checklists are provided to external auditors annually. FERC issues are discussed with TVA and external auditors and conclusions documented prior to implementation of changes. New accounting pronouncements are researched before implementation.	-	-	David Frankenberg
Reputational	42	Provide excellent customer service	High bills cause repeat calls resulting in increased call volume.	Med	High	3	NES continues to partner with overflow contact centers to provide additional staffing around peak call times. Additionally, the Outage IVR and Overflow call answering service was just converted to a newer technology. In 2024, the Customer Service Management team partnered with IT to upgrade and replace the IVR and Call Handling technology to better prepare for the future. New features include a call forecasting and workforce management that will enable NES to be more prepared for peak call volume.	1.3	3.9	Brent Baker
Reputational	44	Provide excellent customer service	Customer Service employee absenteeism is high.	Med	Low	1	Hired contractors to mitigate absenteeism. New technology will be able to better plan the workload and predict staffing needs to ensure call answer times will be improved. Additionally, Overflow call center for outage, billing, payments and payment arrangements have been implemented.	-	-	Brent Baker

ENTERPRISE RISK MANAGEMENT BY RISK CATEGORY

November 20, 2025

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Reputational	47	Positive relationship with public officials within NES service area within the confines of applicable laws and policies	Public officials placing undue influence for political favors and/or utilizing their position to impact the reputation of NES.	Med	Med	2	Ethics policy addresses repercussions for violation of rules.	-	-	Laura Smith
Reputational	49	Perception as contributing and effective community partner	Public scrutiny of community involvement spending.	Med	Med	2	Community involvement expenditures are periodically audited by internal audit to ensure policy compliance	-	-	Laura Smith
Reputational	55	Accurate financial reporting	Lack of reporting or errors in reporting for the annual report, FEMA, TVA.	Med	Low	1	The use of financial reporting checklists and adequate levels of review reduce the risk of errors. Project management techniques and reporting schedules are used by the Accounting department to reduce the risk of failure to file timely. Detailed on-going conversations with TEMA/FEMA to move project from disaster reporting to close-out.	-	-	David Frankenberg

Reputational Average Aggregate Risk: 3.7

ENTERPRISE RISK MANAGEMENT BY RISK CATEGORY

November 20, 2025

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Security/Safety	3	Ensure that electric system and its operation is safe for the public and employees	Failure of electric infrastructure, failure to safeguard persons from hazards arising from the installation of systems and equipment operated by NES.	High	Low	3	Continued use of design standards, analysis tools, code compliance training, inspection and maintenance programs, and compliance with safety codes and safety manual. Annual safety goals approved by Board. Safety performance indicators tracked monthly and reported to Board quarterly.	1.3	3.9	Teresa Broyles-Aplin
Security/Safety	11	Public Safety and environmental stewardship	Inappropriate handling/treatment of hazardous materials, toxins and pollutants.	High	Low	3	Program exists for reporting of spills, clean-up and disposal of contaminated materials. Environmental audits of Construction and Maintenance, Fleet, Materials Management, Meter Shop, Service Centers and substations are conducted. Biennial audits conducted of off-site treatment, storage and disposal facilities under contract. Employees are tested annually on the policies memorialized in the Safety Manual that are applicable to their jobs, including the handling of hazardous materials.	1	3	Teresa Broyles-Aplin
Security/Safety	21	Ensure electric facilities are safe and secure for employees and public	Threats from employees and contractors to other personnel or facilities.	High	Low	3	Access to facilities where personnel regularly work is restricted, cameras are monitored and security guards make periodic rounds. Access to major facility installations is restricted and cameras exist. Background checks are conducted on all personnel assigned to work at NES facilities. Background checks are conducted annually for employees who have NERC CIP area access. Contracts require contractors to have appropriate credentials. Additional cameras and security staff has been added. A 24/7 monitoring center has been established. Gatekeeper has been installed and is operational. We are currently evaluating a new security product called AmberBox, a real-time gunshot detection system designed to enhance safety across all airport facilities. This technology is being considered as part of our ongoing efforts to strengthen emergency response and situational awareness in the event of an active shooter or firearm-related incident. As part of our investigation, we are assessing its effectiveness, compatibility with existing systems, and overall benefits to our operational environment. BNA Airport currently utilizes AmberBox, and we are scheduled to conduct a site visit there on August 25th to observe the system in a live setting. We will continue to provide updates as our assessment progresses.	1	3	Trish Holliday

Security/Safety Average Aggregate Risk: 3.3

ENTERPRISE RISK MANAGEMENT BY RISK CATEGORY

November 20, 2025

Risk Category	Risk No.	Objective	Risk	Impact High, Med, Low	Probability High, Med, Low	Risk Quantity	Risk Response (Orange Print indicates proposed response which is not currently being performed or executed)	Risk Management Quality (Red and Orange Risks Only)	Aggregate Risk (Red and Orange Risks Only)	Responsible VP
Succession	1	Succession Planning	Organization-wide succession issues.	Med	Med	2	Annual reports are provided to the CEO and each Vice President detailing the employees currently eligible for retirement and those that will be eligible for retirement in the next five years for identification of areas that could become vulnerable. Human Resources provides customized profile summaries of departmental staff's skills, experience and education, upon request, and works with department heads to provide specialized training, if warranted, to meet the projected needs of the department. Management has developed a comprehensive succession planning policy. The Board approved the NES Succession Plan and CEO's Annual SP Report. We have developed two additional leadership development programs to be launched in 2026 as a part of the organization's succession planning strategy (LEAD NES and ELEVATE NES). We are researching best practices for a formalized succession planning company-wide program.	1.3	2.6	Trish Holliday
Succession	65	Participation in various benchmarking studies to continue to identify current best management practices in the industry	Without a progressive utility program, without utilization of new technologies and modified work practices, limited resources could become restrictive to the effectiveness of the various NES operations.	Low	Low	1	Continue to participate in various benchmarking studies to identify opportunities for improvement and efficiency. Continue to participate in the American Public Power Reliable Public Power Provider program. Membership in the Large Public Power Council provides a great deal of benchmarking and best-practice data that is highly relevant. Continue to establish operating goals and report to the Board on the progress relating to achieving those goals quarterly. NES has recently invested a lot in technology that will allow employees to work more efficiently and engage with customers via new means. NES also is developing a more robust training program for the entire organization.	-	-	Teresa Broyles-Aplin

Succession Average Aggregate Risk: 2.6

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Supplier	7	Protection of revenue stream	TVA's inability to provide adequate power.	High	Low	3	Coordinate with TVA on power supply planning through frequent meetings and review of TVA's generation plans.	1	3	Teresa Broyles-Aplin
Supplier	8	Protection of revenue stream	Cancellation of contract by TVA.	High	Low	3	Frequent meetings with TVA and participation on TVPPA committees; monitor legislative activity at federal and state level.	1	3	Teresa Broyles-Aplin
Supplier	70	Protection of revenue stream/reliable power	Potential changes or disruption at TVA could result in erosion of the public power model, delays of critical projects/actions, and regulatory uncertainty.	High	Med	4	Active interaction with Federal Leaders in coordination with other LPCs, including TVPPA. Active communication with TVA. Long-term agreement with TVA. Analysis of alternative supply options.	1.9	7.6	Teresa Broyles-Aplin
Supplier	13	Fiscal responsibility must be ensured	TVA's redesign/increase of the whole sale base rates and/or co-supply requirements could result in erosion of NES's sales margin or require additional NES capital or operational spend.	Med	Med	2	Detailed conversations with TVA and other LPCs to understand wholesale rate structure changes and develop workable rate structures, pricing options, and timeline for implementation. On-going review of retail rates and design. Peak Demand Management implemented to reduce impact of rate structure and reduce wholesale power costs. Pilot battery project planned for FY26. Participation in Valley Vision and analysis of alternative co-supply options. Other programs and projects around generation/storage/demand management to be explored to help reduce wholesale purchased power costs (depending on ultimate structure). Cost of service studies performed periodically and active study of peer rate structures and results. As part of the innovation strategy, NES will consider technologies to arbitrage any revenue benefits that may be realized by new rate structures.	-	-	David Frankenberg; Brent Baker

Supplier Average Aggregate Risk: 4.5

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Technology	23	Ensure that computer systems operate reliably and can be recovered quickly in the event of a failure	Failure of computer system software.	High	Med	4	Software and Lifecycle Maintenance Systems are maintained on supported software versions to ensure vendor patches and updates are available. Where this is not possible due to other constraints, risks are documented and mitigating controls are implemented. Regular patching schedules and lifecycle refresh planning reduce the risk of unsupported or unstable software causing failure. Change management processes help ensure updates are tested before deployment to production. Monitoring and Detection Centralized monitoring tools provide alerts for abnormal system behavior and software errors. Regular health checks and audits validate stability and identify emerging issues before failure. Disaster Recovery and Continuity Backups of applications, system configurations, and data are performed regularly and replicated to the DR environment. Recovery procedures are documented for all Tier-0 systems. High-availability and redundancy are implemented where feasible to reduce downtime.	1	4	Ron Womble
Technology	24	Ensure that computer systems operate reliably and can be recovered quickly in the event of a failure	Failure of computer system hardware.	High	Med	4	Lifecycle Refresh & Maintenance Computing equipment is refreshed on an industry-standard lifecycle to ensure reliability and performance. All critical systems, and most hardware in general, are covered under maintenance contracts with response times aligned to the importance of the equipment. When financially justified, spare hardware is maintained on-site to support rapid recovery. Monitoring and Detection Centralized monitoring tools provide alerts for abnormal system behavior and hardware errors. Regular health checks and audits validate stability and identify emerging issues before failure. Disaster Recovery Site & Operations The Disaster Recovery (DR) site is actively leveraged to support QA and Development environments, ensuring readiness in the event of a disaster. Routine failovers are performed for load balancers, firewalls, and internet circuits during maintenance activities. These exercises validate the resilience and availability of critical services. Data Storage & Resiliency NES maintains highly fault-tolerant data storage across primary and DR sites. Nearly all hardware is duplicated at both locations, with data mirrored in real time. Dedicated backup storage devices are available to enable recovery if a disaster impacts the primary facility. Compute workloads are distributed across sites and can shift dynamically as needed. Cloud services are evaluated and adopted where appropriate to increase service	1	4.0	Ron Womble

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Technology	63	Ensure that unauthorized data is never released from NES systems Ensure that unauthorized access does not occur Ensure that the network is protected from internal and external threats	Viruses, spyware, break-ins, and other rogues may result in unauthorized leakage of NES data.	High	High	5	Access Controls and Policies Data access is restricted on a need-to-know basis. Red Flag Training helps employees recognize potential data risks. Endpoint and System Protection Anti-virus software is updated automatically throughout the day with new signatures. Regular patching schedules are maintained to address vulnerabilities. All NES-owned end user devices are encrypted. Microsoft Defender technologies provide enhanced detection and mitigation against ransomware. Data Handling and Classification Data labeling enables both automatic and manual classification of emails and documents. Data Loss Prevention (DLP) is applied to outgoing emails to detect and encrypt confidential information/PII. Data classification scanning software identifies and catalogs sensitive information in NES systems such as SharePoint and OneDrive Information Rights Management (IRM) in Office 365 allows users to restrict actions on emails and documents (e.g., forwarding, printing, encrypting). Data Encryption Sensitive customer information is encrypted and masked within the customer information system (C2M). Backup and Recovery: All backups are encrypted at the Disaster Recovery site. Security Awareness and Training Annual security awareness training is conducted for all employees, with additional quarterly training for office staff. Simulated phishing campaigns are performed bimonthly to test and reinforce awareness. Identity and Access Management Single Sign-On (SSO) and Multi-Factor Authentication (MFA) ensure only authorized users can access NES resources. MFA is required for all remote access and email. Unnecessary local administrator rights on desktops and servers have been removed to reduce security risks. Incident Response NES maintains a documented Incident Response Plan with defined severity levels, escalation procedures, and playbooks for ransomware, data leakage, malware, and phishing. Quarterly tabletop exercises involve IT and business participants to validate response effectiveness. Threat Monitoring A third-party Security Operations Center (SOC) provides 24x7x365 monitoring of NES systems for security threats. The SOC triages and remediates threats in real-time to minimize impact on NES operations. *NES IT has a ongoing Data Management project to establish a Data Governance Strategy which will include in its scope, aspects of classification, data loss prevention, encryption, unauthorized use, labeling, and lifecycle management for structured application data.	1	5	Ron Womble

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Technology	25	To deliver regular internal and external communication	Widespread communication failures.	High	Low	3	Internet and Voice Circuits Redundant Internet circuits at primary and DR facility, which are geographically dispersed. Redundant firewalls and internet facing routers. On-premise voice-system (PBX) is fault tolerant with systems at both primary and DR site. Cloud Services Collaboration tools are cloud based SaaS services with high levels of redundancy and resiliency. This includes Email, Instant Messaging (Teams), Peer to Peer Voice, and the customer facing call center solution.	1.3	3.9	Ron Womble
Technology	29	Maintain familiarity with technological power system equipment advances.	Operational, Legal and Regulatory, Technological and Reputation Risks: Necessary to select equipment that is state of the art such that investment in old and/or soon to be obsolete technology is not made. Education and training to keep up with rapid changes in metering technology.	Med	Med	2	A Technology Roadmap was created and resulted in the IT transformation project. A plan is in place to update equipment and install software updates to combat obsolescence. Ongoing training is provided to relevant roles within the organization. Participation in the various committees within the Large Public Power Council and attendance at technology conferences helps ensure exposure to information about new technologies.	-	-	Teresa Broyles-Aplin

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Technology	30	Information technology solutions should be deployed efficiently, without functional gaps, overlaps or loss of data	Lack of centralized management of information technology increases the cost of the technology because of redundancy of equipment, redundancy of data, redundancy of management processes, and redundancy of staff.	Med	Med	2	IT Oversight Users no longer directly install software; all installations are now managed by IT. Cross-functional teams are used for IT projects, supporting collaboration and oversight. All IT-related purchases are routed through Procurement for IT approval. The RFP selection committee process now includes IT questions to determine the required level of IT involvement. Distributed IT functions performed in other departments (i.e. Engineering, COE, etc.) are done in collaboration with IT and in accordance with IT processes. IT Governance IT Governance Committee established to increase transparency in IT projects, enterprise technology priorities, and purchases. Helps reduce redundancy and provides business partners a forum to advocate for additional services and technologies. IT Project Prioritization IT Steering Committee (ITSC) implemented to prioritize IT projects and initiatives. This enhances alignment between business objectives and IT efforts. Financial Analysis and Decision-Making In FY26 IT began performing financial analyses, primarily of large discretionary projects, evaluating effort required, total cost of ownership (TCO), and expected financial benefits. Financial assessment supports better project prioritization and informed decision-making regarding long-term ROI.	-	-	Ron Womble

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Technology	62	Ensure that only properly licensed software is used	Use of illegal, unauthorized, malware, or pirated software can create significant legal liabilities and embarrassment.	Med	Low	1	Administrative Controls General users do not have the administrative privileges necessary to install software. NES Policy explicitly prohibits the installation or use of unapproved, unauthorized, or pirated software on company endpoints. Software Request and Approval Process I.T. maintains a formal Software Request Process allowing employees to request new applications through Service Now. All requests are reviewed for business need, licensing compliance, security risks, and supportability before approval. Approved software is deployed in a controlled manner by IT. Technical Controls Endpoint management tools restrict software installations and enforce compliance with approved applications. Regular vulnerability scans and endpoint monitoring detect and alert on suspicious or unapproved software. Monitoring Monitoring tools track installed applications and detect risky unapproved software. Endpoint security solutions alert IT teams to suspicious activity or malware potentially introduced via software installations. Lifecycle and License Management NES maintains an inventory of licensed and approved software. Expired or unsupported software is regularly reviewed and removed or upgraded. License usage is tracked to avoid over-deployment and ensure cost efficiency. User Awareness and Training End-user training ensures staff understand the risks of installing unauthorized or pirated software. Security awareness campaigns emphasize both cybersecurity risks (malware, data leakage) and legal risks (fines, reputational damage).	-	-	Ron Womble

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Technology	64	Ensure that the NES application software portfolio and future direction of new systems matches the organization's goals and objectives and are executed in a cohesive manner	Poorly aligned software solutions result in sub optimized investments, poor resource utilization and reduced value.	High	Med	4	IT Governance and Executive Oversight IT Governance was implemented to increase transparency in IT projects, enterprise technology priorities, and purchases. The initiative reduces redundancy risks, provides a forum for business partners to advocate for services and technologies, and strengthens engagement with IT. Significant business projects require approval from the IT Governance Committee (ITGC) to move forward. All projects referred to ITGC must have a VP serving as an executive sponsor and advocate. Completed projects are summarized in NES Monthly Status Reports to provide additional oversight and ensure organizational impact is understood. In FY25 Annual Work Planning (AWP) processes were restarted to gain early alignment and prioritization on technology projects to ensure labor and budgets can be properly allocated. Quarterly business reviews (QBR's) are conducted with each VP to discuss projects, strategy, IT performance, alignment, etc. IT operates an IT Architecture Review Board to ensure that new technology solutions adhere to NES policies and IT standards. Project Lifecycle Management IT conducts bi-weekly project gate meetings to review projects as they advance through the project lifecycle. ServiceNow's SPM tool is used to manage incoming work, with each project reviewed for potential impact on IT resources, costs, and duration. Relevant business groups participate to review demands or ideas before they become active projects. An IT lead is assigned to each project, and SPM notifies the requesting VP level for approval.	1.6	6.4	Ron Womble

Technology Average Aggregate Risk: 4.7

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Stewardship Programs	67	Ensuring that the company has adequate oversight and tone at the top to achieve organizational objectives and create customer confidence.	As a Stewardship-minded business practices gain more traction, there will be pressure from board members, the Mayor, The Metropolitan Council, investors or other key stakeholders on NES to adopt a Stewardship framework that aligns NES' business practices with Stewardship considerations and to adopt a Stewardship like reporting structure for financial statement purposes.	Low	High	2	We are nearly complete with the project to develop a Stewardship Strategy and Framework. KPI's, monitoring, and disclosures are being developed. Projects will be identified that align with the strategy.	2.5	5	Teresa Broyles-Aplin

Stewardship Programs: 5

Executive Session

Miscellaneous