

Madhya Pradesh Power Transmission Company Limited

Risk Management Policy



COMPANY'S POLICY, PROCESS & MEASURES

Index

Sr. No.	Subject	Page
I	INTRODUCTION- RISK MANAGEMENT POLICY	3
II	OBJECTIVE	3
III	ROLE OF THE BOARD	3
IV	STRUCTURE OF RISK MANAGEMENT COMMITTEE	4
V	ROLE OF RISK MANAGEMENT COMMITTEE	4
VI	RISK MANAGEMENT FRAMEWORK	5-10
VII	PUBLICATION OF POLICY	10
VIII	APPLICABILITY DATE	10

I INTRODUCTION

RISK MANAGEMENT POLICY

As per Section 134(3)(n) of the Companies Act, 2013, a statement indicating development and implementation of a Risk Management Policy of the Company is required to be included in Board's Report. Accordingly, the Company is required to frame Risk Management Policy to identify various elements of risk and steps taken to mitigate the same.

Therefore, for the purpose of complying with the aforesaid provisions, the Company has developed a Risk Management Policy.

As an enterprise engaged in transmission of power, the company shall have a system based approach to Business Risk Management. The role of the Board of Directors is to formulate & implement a Risk Management Policy. With a view to ensure effective management of risk, the Board may delegate authority and responsibility on the senior management team including department heads. The process of risk management includes prioritization of risks, selection of appropriate mitigation strategies and periodic reviews of the process of management of risks.

'Risk Management' may be defined as the process of identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to monitor, and control to minimize the probability and/or impact of uncertain events.

II OBJECTIVE

The objective of Risk Management is to create and protect shareholder/ stakeholder value by minimizing threats or losses, and identifying and maximizing opportunities. An enterprise-wide risk management framework is applied so that effective management of risks becomes an integral part of every employee's job.

III ROLE OF BOARD OF DIRECTORS

1. The role of the Board is to ensure framing, implementing and monitoring Risk Management Policy.
2. The Board may delegate monitoring and reviewing of the risk management policy to a designated Committee & such other functions as it may deem fit.

IV STRUCTURE OF RISK MANAGEMENT COMMITTEE

A Risk Management Committee (RMC) shall be formed which will be responsible for implementing and review of risk management processes within the Company.

The following will be the members of RMC:

- i) Managing Director, MPPTCL
- ii) Director (Technical), MPPTCL
- iii) One of the Independent Directors of MPPTCL
- iv) Head of Planning & Design Department, MPPTCL
- v) CFO, MPPTCL.

Company Secretary, MPPTCL shall be the Convener of the Committee.

V ROLE OF RISK MANAGEMENT COMMITTEE

1. To formulate a detailed risk management policy which shall include:
 - a) A framework for identification of internal and external risks specifically faced by the Company, including financial, operational, sectoral, regulatory & legal cyber security risks, non-receipt of dues or any other risk as may be determined by the Committee.
 - b) Measures for risk mitigation including systems and processes for internal control of identified risks.
2. To ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the business of the Company;
3. To monitor and oversee implementation of the Risk Management Policy including evaluating the adequacy of risk management system.
4. To periodically review the risk management policy, at least once in two years, including by considering the changing industry dynamics and evolving complexity;
5. To keep the Board of Directors informed about the status of the risk management process and mitigating actions to be taken;
6. To develop and implement a risk management framework and internal control system.
7. To ensure that the risk awareness culture is pervasive throughout the organization. To assist the Committee in discharging its responsibility in relation to risk management, the Committee may delegate certain responsibilities to the Senior Management.

VI RISK MANAGEMENT FRAMEWORK: PROCESSES & MEASURES

Risk Management framework shall primarily focus, but not limited to, on the following elements-

A) CYBER SECURITY RISK:

The Company is having information technology (IT) systems with operational technology (OT) systems for online monitoring & operation. These systems may have risk of Cyber Attacks and penetrations.

Mitigation: The Company is taking necessary measures like upgradation/ strengthening of systems to combat cyber threats by complying to various guidelines and advisories of statutory bodies, periodic cyber audit and steps to eliminate vulnerability that may be identified in cyber audits etc.

B) SYSTEM RISK:

- i) The transmission network is the backbone for evacuation of power from generating stations to ensure supply to various categories of consumers. The existing system may develop issues of congestion / constraint as a result of change in the generation or demand. Renewable generation is on an increasing trend & has to be handled at transmission or distribution network level. Any constraint in evacuation network may have an impact on transaction of power to other States, sale of power by generator and supply to retail consumers.

Mitigation: The Company undertakes load flow studies, planned strengthening of transmission system in coordination with State / Central Transmission Utilities & consequential execution. Further, to mitigate low/ over voltage issues, sufficient capacity of reactive power compensation equipments (capacitors/ reactors) are also planned.

Also, periodic preventive maintenance is being undertaken to have strong availability of a healthy system.

- ii) **Risk of Non availability of land for EHV Sub-stations**–MPPTCL generally acquires the land only from Government. However, allotment of the land may take time thus resulting into delay of timely creation of Substations.

Mitigation: The Company is coordinating with revenue department. If required, the matter is also pursued through the Energy Department. On non-availability of Revenue land, the Company will purchase the same from the land owners.

iii) **Risk of Right of Way (ROW)** - Delay in construction of transmission line on account of ROW issues including Forest / Wildlife / Statutory approvals from various Government department.

Mitigation: To avoid the delay on account of the above, the Company is taking advance action for carrying out survey of forest area and ensuring timely submission of forest proposal after completing the all necessary formalities to Forest Department. RoW issues being pursued vigorously by visiting the site to convince the land owner. Timely compensation is being paid to the affected persons as per the provisions of law/ rules. For resolving severe RoW issues the help of District Administration is sought.

iv) **Weather & Environmental Risks**–

Unfavorable weather conditions may affect the system in operation and storage. Heavy storm/ rains may cause water logging which could result in submergence of cable trenches and other portion of the Yard. Extreme weather conditions like cyclonic winds also poses challenges for the transmission lines.

Presently, historical demand pattern of the state available with beneficiaries are considered while making day ahead forecast for Load Despatch which may suddenly change.

Mitigation: All efforts are made to acquire a fairly level piece of land at relatively higher level than the surroundings for construction of EHV substations. In order to avoid entry of storm water in yard; construction of drains, having proper slope is constructed. Equipment such as Control Panels etc. are kept in covered shed to protect the equipment in rainy season.

For mitigating detrimental effects of weather on transmission lines, periodic patrolling along with replacement of tower parts is being carried out. In case of tower collapse, Emergency Restoration System (ERS) is being used for early restoration of power supply & maintaining availability.

Weather forecast information available in public domain is accessed and monitored closely. For obtaining advance level computer-based application for load forecasting, academic institution is being engaged.

- C) OPERATIONAL RISK** - There is a risk of disruption of operations because of some unplanned and unforeseen situations, delays, lack of sufficient inventory levels and mal-functioning of equipments.

Mitigation: The Company is functioning under a well-defined organizational structure. Proper policies are being followed in relation to maintenance of inventories of consumables, key spares and tools to ensure smooth operations. Moreover, the Company keeps the mandatory spares to take care of emergencies. The Company also insists on OEM guarantee / warranty and defect liability period to ensure that the work does not get hampered due to non-availability / defective equipment / spares required for work. The Company also puts in full efforts to achieve the target of Transmission System Availability as set by MPERC.

Standard Operating Procedures (SOP) & maintenance guidelines/ schedules are in place, which are strictly adhered by the Company to avoid unscheduled outages. Further, in case of emergency, modern maintenance techniques are followed to minimize the outage timings.

D) FINANCIAL RISKS:

- i) **Credit Risk** - There is a Risk involved in late/delayed payment of invoices by debtors. One of the major risks experienced by the Company is beneficiaries defaults in release of funds and irregular payments. This may create pressure on cash management and may require additional borrowings.

Mitigation: Mechanism such as regulatory late payment surcharge for timely recovery of outstanding dues for Long Term Consumers and advance payment for Short Term Consumers is being effected as security cover. Where ever required the intervention of the Government is also being sought.

- ii) **Counterparty Risks:**

Risks arising from our association with entities for conducting business will have impact on the performance of the Company and will affect Company's

reputation as well as profitability. These include clients, vendors, transporters, alliance partners and their respective industries. Delay in achieving Financial Closure, Suspension of works, Variations, delay in delivery, non-performance of suppliers & contractors, etc. are some of the major risks associated with our customers and vendors/suppliers.

Mitigation: Proper project management& monitoring is being ensured. Provisions have been made in standard bidding document towards action against defaulters to be undertaken by the Company.

- iii) **Inflation and change in Cost Structure** - There is a risk of increase in expenses due to inflation which may consequently reduce the profits/increase the losses of the Company. There is also a risk of past-working taxation which may change the cost structure.

Mitigation: At organizational level, cost optimization, timely action and cost reduction initiatives are being implemented and monitored. The Company also control costs through a budgetary mechanism. Further the Tariff Regulation presently provides protection to cost structure. System of hiring competent Tax consultants/ Lawyers to safe guard the interest of the Company is being pursued.

- iv) **Liquidity Risk** - There is a risk of insufficient liquidity for day to day operations if cash inflows / outflows, if not properly planned / monitored which may also lead to risk of higher interest pay out and increased borrowings.

Mitigation: Proper financial planning is put in place. Annual budget is being prepared. Periodical cash flows are prepared and monitored at senior levels.

- v) **Financial Support Risk** - There is a risk of insufficient support in the form of equity or Tie-ups being not available or higher interest loans being only available that is needed for strengthening of the Transmission Network.

Mitigation: Tie-up with Banks for Short Term Credit on MCLR Basis shall have to pursued. For equity support the principal owners shall have to take appropriate steps.

E) REGULATORY RISK& LEGAL RISK–

In the Electricity Sector, Regulations are framed by Central/State Regulatory Commission covering aspects of performance, operation, tariff etc. Moreover, the State / Central Government are notifying various guidelines and policy for growth of the sector. These Policies/ Regulations are modified from time to time based on need and development in the sector.

The Company may be exposed to risks arising from inadequate compliance to regulations, contractual obligations and intellectual property violations leading to litigation and loss of reputation, change in Law, etc.

The Company is required to ensure compliance of provisions of various applicable statutory enactments. There may be risks associated with non-compliance of the applicable laws& regulations.

Mitigation: To protect the interest of the Company, active- participation in necessary processes at the Regulators and State Government level during the time of framing of Polices and Regulations are being pursued. Regulatory Information, ARR and True-ups are being filed in stipulated time frame. All efforts to meet the norms are being pursued through monitoring & taking timely necessary steps. Capable panel of lawyers have been constituted to defend the interest of the Company in the Regulatory bodies & other Courts of Law.

F) EMPLOYEES RELATED RISK - There is a risk of accident, illness, attrition, aging, dissatisfaction etc. Risks arising from delay in hiring or sub-optimal utilization of resources such as talent and experience, erosion of talent/skills will have significant bearing on the Company's business. Dependency on out sourcing is also an operational risk.

Mitigation: Employees constitute the most important assets of any organization and keeping that in view, MPPTCL has a recruitment policy for recruitment of personnel. Skill development & training at regular intervals to upgrade skill is being imparted by the Company. Departmental supervision of outsourced O&M services is being done. To check attrition rate, various activities relating to welfare of employees, safety steps is being under taken from time to time by the Company.

G) **RISK TO COMPANY ASSETS AND PROPERTY** - There is a risk of theft, damage, pilferage, destruction, obsolescence, failure & fire etc. due to various factors. Apart from this, ageing of infrastructure is also a major Risk.

Mitigation: Proper security and maintenance of assets is provided, wherever required. Fire Protection System are installed in all 400 KV & 220 KV Transformers for protection against fire and all substations are equipped with fire extinguishers to mitigate fire hazard. Assistance of District Administration is being sought to curb theft. Transit insurance cover is obtained for costly equipments during their shipment. Performance guarantee provisions has been made for assets against failure. During construction & transit, insurance cover of material is obtained.

As per life span of ageing infrastructure, renovation and replacement of such element is a constant process of the Company.

H) **BUSINESS RISKS FROM COMPETITORS:**

Moving away from the monopolistic market, now The Company is witnessing Business risks emanating from Private players/ competitors in transmission sector.

Mitigation: The Company is planning to venture in to newer avenues that are possible under regulatory guidelines. The Company also intends to participate in other transmission projects and capitalize on its experience/ specialties where ever possible.

VII PUBLICATION OF POLICY

This Policy will be made available on the website of the Company and a statement indicating development and implementation of a Risk Management Policy of the Company will be published in the Annual Report.

VIII APPLICABILITY

This Policy shall come into force with effect from 27th September, 2022.
