



Risk Management Policy

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THE PEOPLE'S POWER

Risk Management Policy

1. Introduction

- 1.1. Powow Power Pty Ltd (**Powow Power**) is a renewable energy-focused energy retailer with a focus on the environment and on saving customers money by offering simple competitive pricing.
- 1.2. Powow Power is committed to sustainable growth and compliance with all regulatory obligations. To this end, Powow Power ensures that risks to the business are well understood and managed. Risk management aims to achieve an appropriate balance between realising opportunities for gain whilst minimising losses.
- 1.3. Risk management is an integral part of good management practice and an essential element of good corporate governance. It is defined as an iterative process consisting of steps that, when undertaken in sequence, enable continuous improvement in decision-making and facilitate continuous improvement in performance.
- 1.4. To be effective, risk management – like compliance – must become part of an organisation's culture. It should be embedded into the organisation's philosophy, practices and business processes rather than be viewed or practised as a separate activity. When this is achieved, everyone in the organisation becomes involved in the management of risk.
- 1.5. AS ISO 31000:2009 provides a generic guide for managing risk. This standard may be applied to a very wide range of activities, decisions or operations. Powow Power has adopted AS ISO 31000:2009 as its base guidance document for addressing risks.

2. Definitions

- 2.1. **Consequence** - is a measure of the impact of an event occurring on Powow Power. It is a measure of the financial, reputational, environmental and operation outcomes.
- 2.2. **Control** - is a measure put in place to minimise the likelihood of an event occurring.
- 2.3. **Likelihood** - 'a subjective estimate of how often an event could be expected to occur. In a quantitative risk assessment, likelihood may be considered more precisely as a measure of probability in a defined period.' (Source: Chartered Secretaries of Australia- Assessing, Analysing and Treating 2010).

- 2.4. **NEM-** National Energy Market.
- 2.5. **Relevant Regulatory Bodies** - includes the Australian Energy Regulator, the Queensland Department of Mines and Energy, the Australian Competition and Consumer Commission, the Department of Human Services.
- 2.6. **Risk Management** - 'the adoption of consistent processes within a comprehensive framework to ensure that risk is managed effectively, efficiently and coherently across an organisation' (Source: AS ISO 31000:2009).

3. Objectives

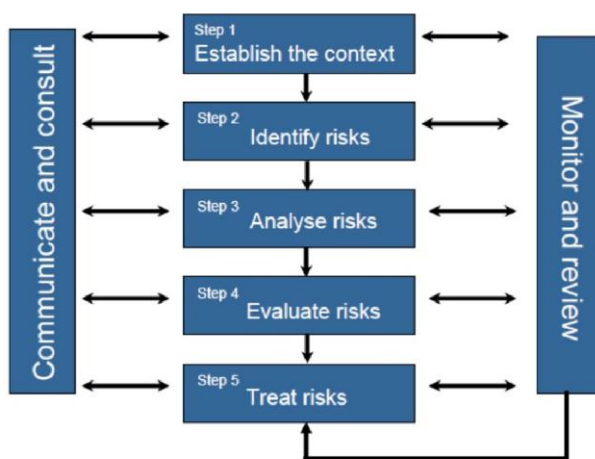
- 31. Powow Power's objectives for managing risk are to:
 - a. Achieve its strategic objectives;
 - b. Safeguard assets, operation and goodwill; and
 - c. Create a culture where all members of management and staff assume responsibility for risk management.

4. Aim

- 4.1. As ISO 31000:2009 states that the aim of a risk management plan should be to embed risk management in all the organisation's important practices and business processes so that it is relevant, effective, efficient and sustained. In particular, risk management should be embedded into the policy development, business and strategic planning and change management processes. It is also likely to be embedded in other plans and processes such as those for asset management, audit, business continuity, environmental management, fraud control, human resources, investment and project management.
- 4.2. As ISO 31000:2009 also stresses that a commitment to risk management at senior management levels is also important. An organisation's board or executive should define and document its policy for managing risk, including the objectives for and its commitment to risk management.
- 4.3. Publishing and communicating a policy statement of this type demonstrates the commitment of our executive to risk management.

- 4.4 Powow Power's approach to risk management will pervade its corporate governance and its policies, programs, processes and business rules. It will be integrated into its operational procedures.
- 4.5 In reviewing risks, Powow Power continues to ensure that our exposure is limited and that our operational procedures reflect control risk.

Figure 1: Risk assessment method



5. Benefits of Risk Management

- 5.1 Powow Power recognises the various benefits of risk management on an organisational level. Risk management is integrated into decision making but also brings benefits to effective project management, strategy development and operations.
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6. The Board's commitment

- 6.1 The board of Powow Power has overall responsibility for ensuring that there is a sound system of risk management and internal compliance and control across the business.
- 6.2 The board is also responsible for defining the overall risk appetite of the business, and for approving policies and ensuring that these are implemented. The board will approve the Risk

Management Policy and will in the normal course, approve changes and updates to the Policy, on a case-by-case basis.

7. Role of the CEO

- 7.1. The CEO is responsible for overall management of risk and exposure in the business.
- 7.2. In this role, the CEO will be entitled to rely on the management team to a large extent.

8. Amendments

- 8.1. This Risk Management Policy is intended as a dynamic document and will be updated from time to time to suit changing circumstances and policy decisions.
- 8.2. The CEO will review changes and updates to the Risk Management Policy and will recommend these to the board for approval.

9. Specific Risks

- 9.1. There are a range of specific risks that have the potential to have an adverse impact on Powow Power's business. These are covered by three modules which are summarised below.
- 9.2. When required, Powow Power will complete a specific risk report covering the specific risks. Each risk is then measured by examination of likelihood and consequence. Controls are developed to cover all risks.

10. Module 1 – Transaction Risk Policy

- 10.1. Powow Power's transaction risk policy deals chiefly with the financial risk arising from transactions with counterparties including those who supply the business with electricity.
- 10.2. This policy will define the company's financial risk profile, the risk appetite of the business, its hedging guidelines and credit policy. The policy will also deal with risk associated with Powow Power's marketing of non-energy products.

Risk Management in the NEM

- 10.3. As an electricity retailer participating in the NEM, Powow Power is exposed to a variety of market related risks. These risks arise from the volatility in the pool price for electricity. For an electricity retailer, the core objective of a transaction risk policy is to reduce – ideally, to avoid – exposure to volatility in the pool price.



- 10.4. In the case of Powow Power, this will be achieved by entering into hedge agreements based on the 2002 ISDA Master Agreement, the Schedule to the 2002 ISDA, and the Australian Addendum No 13. Reallocation Agreements will also be used to hedge the pool price, in accordance with the National Electricity Amendment (Reallocations) Rule 2007 No 1. Reallocations may or may not be based on ISDA Agreements.
- 10.5. These hedge agreements, although purely financial instruments, are loosely called "wholesale" arrangements. Transactional risk management at Powow Power will be directed at avoiding pool price volatility and secondly, at establishing a diversity of wholesale counterparties. Powow Power does have exposure to pricing fluctuations in its supply agreements and manages this risk in accordance with this policy.
- 10.6. Powow Power will require all employees who trade on the ASX Energy Market, to hold all necessary qualifications and licences including but not limited to a current Australian Financial Services Licence and to comply with the ASX Energy Market Policy.
- 10.7. In addition, Powow Power will require all employees who trade on the ASX Energy Market to comply with all guidelines or notifications from the Australian Energy Market Commission, the Australian Energy Market Operator and the Australian Energy Regulator.

Role of the Board

- 10.8. As the board of Powow Power is responsible for defining the overall risk appetite of the company, it will have responsibility for setting the level of exposure that the company is to take and the period over which the level of exposure is to be taken.

Limits of Authority

- 10.11. Limits of authority for wholesale transactions are to be set by the Board.
- 10.12. No employee or contractor of Powow Power may execute any contract of any sort without written authorisation by the CEO or under the limit which they have been given in writing.
- 10.13. The CEO is expected to review authority limits on a regular basis.

Counterparty Risk Policy

- 10.14. Where Powow Power is proposing to enter into financial transactions with a counterparty, it is essential that a thorough due diligence be carried out on the expertise, financial wherewithal, physical resources and creditworthiness of the counterparty to ensure that it can deliver the products and services required by Powow Power.

11. Module 2 – Operational Risk Policies and Procedures

- 11.1. The Board will set out:
- a. the delegated authorities necessary to allow financial activities to be conducted; and
 - b. authorisation limits relating to expense and capex items.
- 11.2. Authorisation limits will be set by the Board. These will relate to expense items, contractual commitments, energy purchase contracts, retail sale contracts and capital expenditure items. The authorisation limits set monetary limits on employees' delegated authority to sign contracts on behalf of the Company. The limits may be changed or updated from time to time.
- 11.3. No agreement or contractual commitment shall be signed by an employee which exceeds the limits of the employee's delegated authority.

Intellectual Property and Confidential Information

- 11.4. Unless and until otherwise decided by the board, Powow Power's Compliance Committee is responsible for ensuring that all Powow Power's inventions, logos, business names, designs, confidential information, data, business plans, and all other intellectual property are appropriately protected by patents, trademarks, registered business names or confidentiality agreements.
- 11.5. All employment contracts and service agreements with outsourced contractors must contain:
- a. Confidentiality clauses; and
 - b. A commitment to full compliance with this Policy by the employee or contractor.
- 11.6. No logo, business name or slogan may be used in any marketing activity unless appropriate steps have been taken to protect it and it has been authorised by the CEO.
- 11.7. Confidential discussions with outside entities (for example, investors, sales channels, service providers, retailers) must not be commenced without a confidentiality agreement being entered into and without the approval of the CEO.

Counterparty Risk



11.8. Where Powow Power is proposing to enter into strategic contractual arrangements with counterparties, such as

- a. outsourcing agreements with service providers; or
- b. financial transactions

it is essential that thorough due diligence be carried out on the expertise, resources and creditworthiness of the other party to ensure that it can deliver the services required by Powow Power. The contractual arrangement must have the CEO or Board approval.

11.9. The risk in any outsourcing arrangement is that the other party, having been entrusted with one or more of Powow Power's operations or processes, such as pricing, billing or call centre operations, may fail to perform due to financial weakness, software failure, the loss of vital staff, or other factors. If it appears that the counterparty may not have the expertise or resources required to deliver the service or services required, enquiries must be carried out to ascertain whether the counterparty has contractual arrangements in place with sub-contractors which ensure that Powow Power's requirements will be met or if this risk can be mitigated in other ways. If adequate sub-contractor arrangements are not in place, the outsourcing arrangements should not be entered into.

11.10. If a counterpart appears to lack any of the core requirements (expertise, resources or creditworthiness), the contractual arrangements should not proceed without Board approval.

Insurance protection

11.11. Powow Power's policy on insurance cover involves an assessment of all insurable risk and the placing of sound insurance cover with reputable brokers.

11.12. Cover is required over insurance risks such as

- a. Physical asset cover;
- b. Business related risks; and
- c. Directors and Officers.

11.13. Any product or service provided by Powow Power involving the giving of advice (such as energy audits or energy saving products) will require professional indemnity insurance cover.



- 11.14. In negotiating contracts with external service providers, where Powow Power accepts any liability under any indemnity, or any liability for consequential loss, these risks must be matched with the insurance cover of the business.

12. Module 3 – Legal and Compliance Risks

- 12.1. Regulatory and compliance risks will be examined for specific compliance obligations and each report will have a review date on which the risk will be considered again.
- 12.2. An energy retailer has a number of regulatory obligations and there is a risk of non-compliance, investigation and disciplinary action. The regulatory obligations of an energy retailer stem from the licence to retail but also come from external regulatory instruments.
- 12.3. Obligations imposed by the Regulatory bodies cover virtually all operations of an energy retailer. By virtue of Powow Power's licences, Powow Power is required to comply with all applicable Codes, Guidelines or instruments issued by the Relevant Regulatory Bodies which will include the Australian Energy Market Commission, the Australian Energy Market Operator and the Australian Energy Regulator.
- 12.4. The various regulatory obligations are listed in our Compliance Policy and throughout other operational documents. Compliance with various obligations is also inbuilt into our systems and automated processes.

13. Contact Details

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