Expenditure Governance Procedures

2025-2030 Regulatory Proposal

Supporting document 5.1.2

January 2024

SA Power Networks

Empowering South Australia

Contents

Glossary

Acronym / term	Definition
A&W	Asset and Works
AER	Australian Energy Regulator
AMS	Asset Management System
AMTP	Asset Management Transformation Program
Capex	Capital expenditure
DER	Distributed energy resources
EBSS	Efficiency Benefit Sharing Scheme
ELT	Executive Leadership Team
ETC	Electricity Transmission Code
GSL	Guaranteed Service Level
ICT	Information and Communication Technology
LV	Low voltage
NEL	National electricity law
NEO	National electricity objective
NER	National electricity rules
NPV	Net present value
Opex	Operating expenditure
ORCM	Operational Risk Cost Model
PA	Project Authority
PIR	Post Implementation Review
PLEC	Power Line Environment Committee
RIT-D	Regulatory Investment Test - Distribution
SCS	Standard Control Services
UID	Underground Industrial Development
URD	Underground Residential Development
WIP	Work In Progress

1 About this document

1.1 Purpose

This document describes the robust planning and governance processes employed by SA Power Networks in its business planning and annual budget cycles. It outlines how our organisation risk framework is used to make decisions regarding the investments we make in the Network.

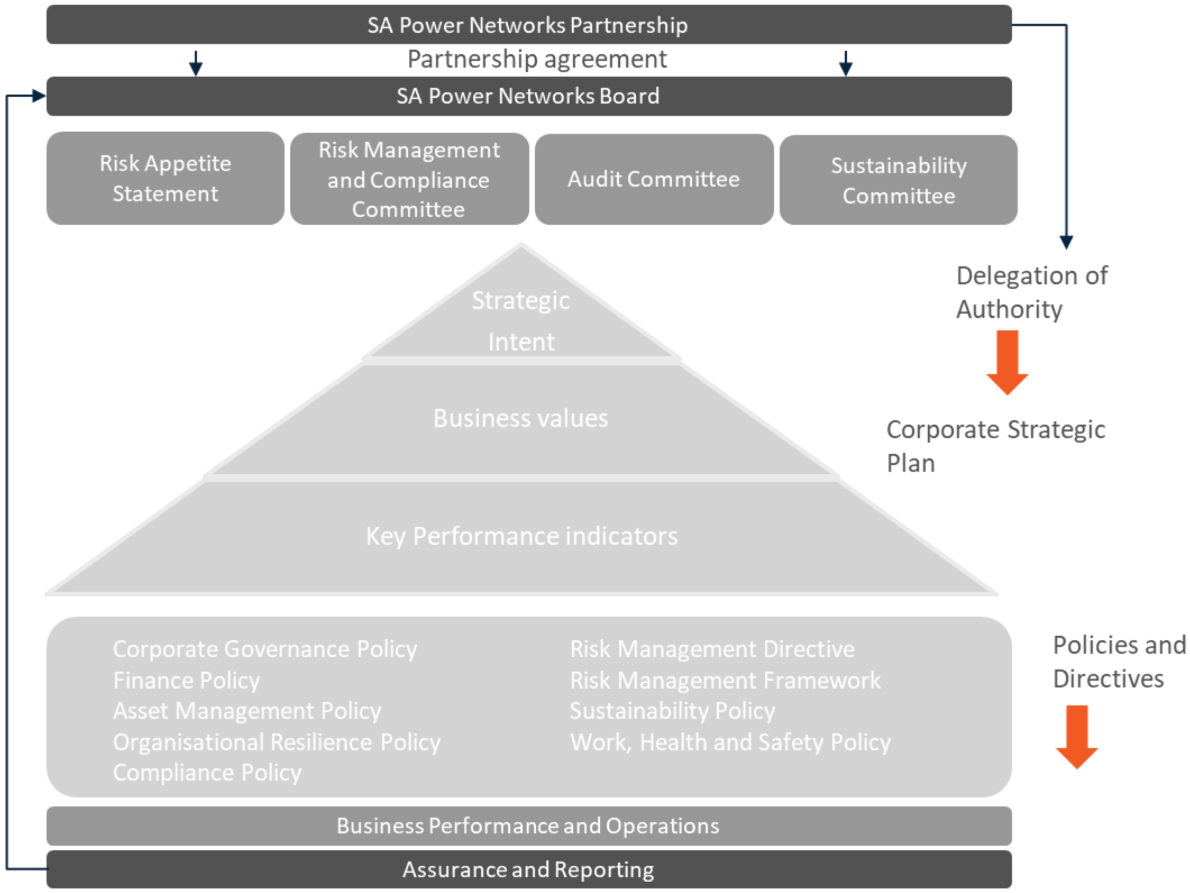
2 Overview

SA Power Networks is committed to the highest standards of corporate governance. Corporate governance is the method by which the business is directed, administered and controlled, and its ultimate aim is to achieve the best balance of outcomes for customers, owners, and the community.

3 Governance policy and framework

The Corporate Governance Policy and Corporate Governance Model outline how the Board is pursuing good corporate governance, and guide the business on key principles on expected governance, structure, duties, and standards (i.e., ethics and integrity).

On behalf of the SA Power Networks Partnership, the Board has been delegated responsibility for overall corporate governance including critical responsibilities of strategy setting, policy definition and compliance, and monitoring business performance. The key elements of our Corporate Governance Model are:



- SA Power Networks Partnership – we are owned and operated by a partnership of the Partner companies. Decisions made in the business are made on behalf of the Partners. Our corporate governance model ensures the right outcomes are achieved in the right way for the Partnership;
- Partnership Agreement – Partners have delegated powers to a Board to operate the business – including decision making on their behalf. Aside from defining the role of and establishing the Board, the Agreement also prescribes other key requirements of corporate governance;
- SA Power Networks' Board – the body representing the Partners, responsible for the conduct of our business and strategic direction;
- Board Sub-Committees – allow detailed consideration of more complex issues: Audit Committee, Risk Management and Compliance Committee, Sustainability Committee, and Remuneration Committee;
- Strategic Plan – supports our long term Strategic Direction and must be submitted annually to Board for approval;
- Policies – how the Strategic Plan is to be achieved is effected by the Board by approving corporate policies, which determine the broad conduct of the business. The policies cover the key areas of Corporate Governance, Finance, People, Assets, and Customers and Community;
- Delegations of Authority – day-to-day management of the business and implementation of the Strategic Plan strategy and Policy requirements are formally delegated by the Board to the Chief Executive Officer and senior executives as set out in the various delegations;
- Performance Management – periodically, management reports to the Board on progress in achieving the Business Plan, and variations from the Plan are identified and acted upon; and
- Assurance – to provide independent assurance to the Board that business operations and controls align the corporate governance model, we use an internal audit function, Audit Services, reporting to the Audit Committee. Further, financial aspects of external reporting to stakeholders are subject to external audit.

Asset management policy

This policy aligns with the SA Power Networks Corporate Strategic Plan and is a Board approved document. It applies to all of our assets and associated activities and supports excellence in asset management and delivery of essential services. The policy states that we will employ good asset management practices that:

- provide a safe environment for employees, contractors and the community;
- are guided by the Strategic Direction and plan;
- are driven by the levels of service that customers value;
- ensure we comply with our regulatory obligations;
- deliver a prudent risk based approach; and
- foster continuous improvement.

Policy practices are integrated into asset management objectives and strategies applied to network assets.

Asset management objectives

We have developed asset management objectives which underpin our asset management core strategies, and align the organisation's strategic intent, goals and key priorities which are as follows:

1. keep the public, staff and contractors safe;
2. develop service levels supported by comprehensive customer and key stakeholder engagement;
3. achieve agreed current and future levels of service while complying with legislative requirements;
4. deliver sustainable network investments and performance that are cost efficient and consistent with prudent risk management approaches;
5. maintain an asset management system that satisfies the criteria and evidentiary needs of regulatory stakeholders; and
6. promote clarity and transparency to build stakeholder confidence.

Asset management approach

The features of SA Power Networks' asset management approach, include:

- the development and delivery of service levels supported by comprehensive customer and key stakeholder engagement;
- the translation of service levels and risk into operational asset management decision making processes;
- development and maintenance of the asset information systems and standards to ensure compliance with regulations, industry standards and to enable effective asset management decision making;
- determination of optimum spares holdings to deliver regulated standards and customer expectations;
- integration with augmentation projects (such as customer connections), including optimal scheduling and bundling of inspection, maintenance and replacement of assets;
- long-term planning for the management of each asset class, allowing for factors such as the age profile and expected end of life, performance history, condition information, and industry experience; and
- the achievement of continuous improvement.

We are continually improving our asset management practices and systems to provide a balanced outcome meeting shareholder, risk, compliance, and customer objectives. A major part of that improvement has been the continuation of a transition to a risk-based replacement approach for assets. This transition requires good asset condition data combined with improved analytical techniques to enable asset risks to be quantified.

Asset management system

To deliver effective asset management, we have evolved and continued to develop an Asset Management System (**AMS**). The AMS ensures the many aspects of asset management are addressed, risks are identified and managed, asset management activities are integrated with other business planning functions and review and improvement are organised and ongoing. Our AMS includes but is not limited to:

1. strategic asset management documentation including the Strategic Asset Management Plan and supporting detailed strategies, manuals, processes and procedures with line of sight to the Corporate Strategic Plan;
2. comprehensive, centralised management of asset information and standards;
3. specific strategies for managing all classes of assets and all operating environment issues;
4. a risk management process;
5. systemised relationship management to ensure asset management activity integrates fully with other departments;
6. effective management of life-cycle delivery mechanisms; and
7. work process documentation including provision for review and improvement.

Asset management improvement

We have been investing in asset management systems through a long-term strategic program, Assets and Work (**A&W**). This program delivers on a roadmap first established in 2014 developed in consultation with the global asset management specialist firm, Vesta aligning with ISO5500:2014. The first stage of the A&W program was approved by the AER in the 2015-20 Determination. Development during this period focused on foundational elements including asset data as well as an initial move to a value versus cost approach to network investment. The second stage of the A&W program was approved by the AER in the 2020-25 Determination. This stage has focused on improving our approach to economic valuation of network investment and ensuring network expenditure aligns with this approach.

Investment in our asset management systems via the A&W program has underpinned our ability to continue to deliver service outcomes to customers despite a growing number of assets reaching the end of their economic life. This has largely been achieved through a better understanding of the risk our assets pose to service outcomes and where best to invest our network replacement expenditure.

Recognising the need to refresh the roadmap first developed in 2014, SA Power Networks is undertaking a comprehensive assessment of its asset management practices and systems in 2023 with asset management specialist AMCL. This assessment will consider our capability maturity with respect to ISO55000 and will form the foundation of a revised roadmap to 2030 to be delivered through our Asset Management Transformation Program (**AMTP**). The AMT program effectively continues the A&W program, delivering on a revised roadmap and ensuring that all business activities support effective asset management.

3.1 Our Strategic Framework

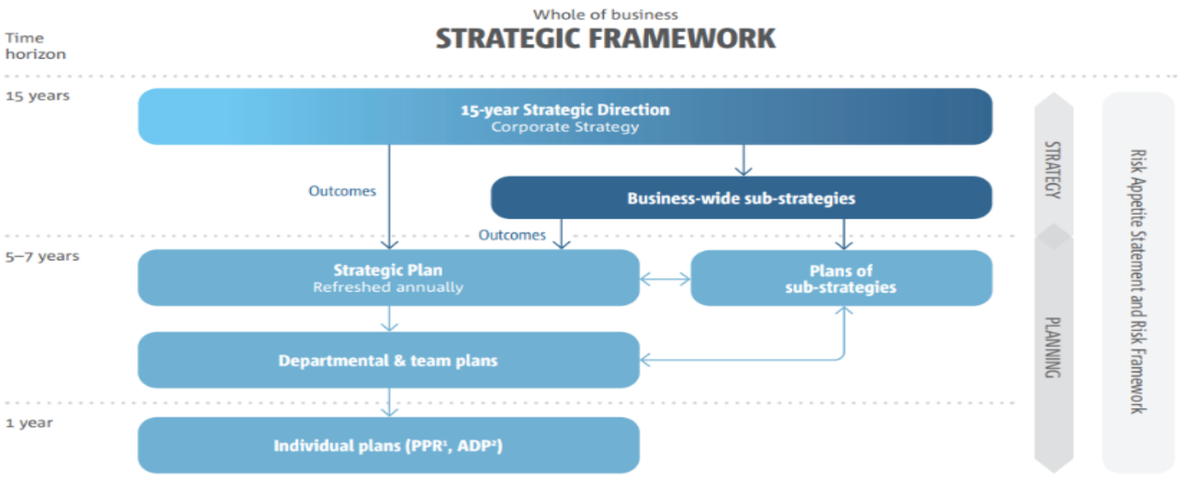
To understand how we need to position ourselves to successfully deliver valued services to customers, we first contemplate the external environment shaping our future operating context to identify potential new opportunities and emerging challenges to manage. For example:

- **ageing assets** – most of our network assets were installed in the 1950s, 1960s and 1970s, and the average age of our assets is now circa 45 years, with many assets in excess of 80 years;
- **customer energy resources** – as the cost of these resources continues to fall, Australia is expected to overtake most other countries in respect of distributed energy take-up by the mid-2020s before reaching a decentralisation ratio of 45 percent by around 2030; and
- **climate change** – forecasts indicate that by 2035 average temperatures across Australia will be at least one degree higher than historical averages. South Australia is expected to experience more

frequent and more severe weather events, requiring a greater focus on storm response and network resilience.

In 2020 we refreshed our long-term strategy for the next 15 years, culminating in our Strategic Framework (Figure 1 Strategic Framework). The Framework provides a line-of-sight from our 15-year Strategic Direction through to the personal performance objectives of all employees. The Strategic Direction setting process provides a vehicle to align with key stakeholders, including customers, on key issues and opportunities arising from the changes occurring in the electricity sector, to articulate our service aspirations and chart a future course.

Figure 1 Strategic Framework



1 Performance planning and review.
2 Achievement development process.

The external environment remains dynamic and to ensure that our Strategic Framework is robust we:

- undertake ongoing monitoring for environmental changes requiring response and strategy adaptation, drawing on: ongoing customer and stakeholder engagement, long term scenario modelling, and trends and forecasts of issues facing the electricity sector;
- report monitoring results on at least a bi-annual (or event driven) basis to our Executive;
- establish performance measures and targets to provide insight into our performance against our declared ambitions and data to help drive decisions relating to our investments; and
- refresh our Strategic Direction on a five yearly basis.

3.2 Risk governance

A critical component of the Strategic Framework is risk governance. The key components of SA Power Networks approach to the governance of risk that enables Executive and Board oversight of strategic risks include:

- Clear responsibilities and accountabilities for risk are defined across the Group through a three lines of defense model which ensures effective independent oversight and assurance in respect of key decisions. The Company Secretary supports senior and Board-level committees and supports agenda planning. This gives a further line of escalation outside the three lines of defense.
- Regular risk monitoring and reporting throughout the business, to leaders, the Executive Leadership Team, and the Board ensures risk is maintained in accordance with appetite. This is supported by the risk team, who are custodians of the strategic and corporate risk register and the methodologies that support them.

- The risk appetite, policies, controls, and reporting are also regularly reviewed and updated where needed to remain compliant with regulation, law, corporate governance and general better practice.
- Board-level engagement, partnered with the involvement of leaders in risk issues, ensures that escalated issues (particularly those outside of risk appetite/tolerance) are promptly addressed and remediation plans are initiated where required.
- Line managers are directly accountable for identifying and managing risks in their individual businesses, ensuring that business decisions strike an appropriate balance between risk and reward and are consistent with risk appetite.

3.3 Risk appetite statement

The Statement articulates the Board's general principles on risk taking, risk mitigation and risk avoidance, aligned with our strategic objectives. It addresses key risk areas and provides guidance on the nature and extent of risk they are willing to take. In doing so, it provides direction on how risk should be evaluated in decision making and creates a foundation for the communication of risk between our Board and executive.

The Statement is broadly summarised into areas where the Board has little/no tolerance for risk, up to strategic areas where the Board understands that a more targeted or ambitious level of risk taking is required to achieve strategic objectives.

3.4 Risk management framework

SA Power Networks' owners and management have made a strong commitment to risk management in the business and the Risk Management Directive requires that risk management considerations are to be incorporated in all activities of the business.

Like most large organisations, SA Power Networks has established robust risk management principles, policies, rules, practices and processes. The Risk Management Directive outlines the principles, structure, and approach to risk management at SA Power Networks, and considers the Risk Management Principles of AS/NZS ISO 31000:2018. Risks are identified, managed, mitigated, and monitored using our comprehensive enterprise Risk Management Framework.

The Risk Management Framework provides a consistent mechanism for measuring, tracking, reporting and escalating risks in alignment to our strategic focus areas and risk appetite. The Framework integrates risk management into significant activities and functions, is integral to decision-making, and is integrated into the business structure, operations, and processes. It is applied at strategic, operational, program and project levels. The Framework includes a methodology that defines broad criteria for evaluating the significance of risk. The resulting risk analysis involves a detailed consideration of uncertainties, risk sources, consequences, likelihood, events, scenarios, controls and their effectiveness.

4 Business Planning

4.1 Enterprise Business Planning

The annual planning cycle is incorporated into the strategic planning process and commences with the Executive Leadership Team (**ELT**) establishing specific strategies and targets in alignment with the Strategic Direction.

The strategic planning process represents a significant tool in the establishment of a future framework for the business. A key component of the strategic planning process is the development of an annual Strategic Plan which incorporates a 5-year financial plan.

The financial plan supporting the Strategic Plan has two major components:

- the Annual Budget represents the first year of the Plan and outlines the overall financial plan for the coming year through the provision of detailed estimates of capital and operating expenditures that will be used for performance measurement; and
- the four forward years beyond the budget year make up the remainder of the Plan, incorporating SA Power Networks' longer-term strategies.

The strategies and targets provide a framework for departments to undertake business planning, including the establishment of work programs and related capital and operating budgets.

4.2 Departmental Business Planning

After the establishment of broad strategies and targets by the ELT, individual departments prepare their business plans. Planning includes analysis of forthcoming capital projects and work programs, and the formulation of the capital and operating plans and budgets.

5 Expenditure Forecasting

The key goal of our forecasting methodology is to develop expenditure forecasts that are aligned to the expectations of our customers by way of the services and service levels that they receive from us and the prices that they face for these services, and that are economically efficient.

Strategic Direction & Strategic Plan
Our forecasting is guided by our Strategic Direction & Strategic Plans which take stock of the key long term drivers shaping the electricity distribution landscape, associated service risks, opportunities, and set our business objectives and focus areas.

Analytics & forecast development
To inform our forecasts, we conduct in-depth analysis of the extensive data collected throughout our business to assess how our customer service performance will be affected by drivers, risks and opportunities identified within our strategies. By understanding the potential impacts, we forecast actions aimed at achieving our strategic objectives.

External and internal challenge
To develop a consumer centric proposal, the customer voice is at the centre of our decision-making process. Our forecasts are subject to an iterative process allowing us to refine and shape our forecasts in direct response to preferences expressed by customers at each stage of our engagement process with a key focus on engaging on service and price outcomes for customers.

We also apply multiple tiers of top-down and bottom-up challenge internally within our business, starting from total aggregate expenditure and extending down to the individual business case level and the specific customer value analysis, and options used therein. This ensures that our forecast is subject to a holistic and customer value focused challenge guided by the National Electricity Law (**NEL**) and National Electricity Rules (**NER**).

5.1 Capital Expenditure Forecasting approach

Our capital expenditure (**capex**) has been forecast by applying a comprehensive and multifaceted expenditure forecasting methodology, guided by two principal and related objectives:

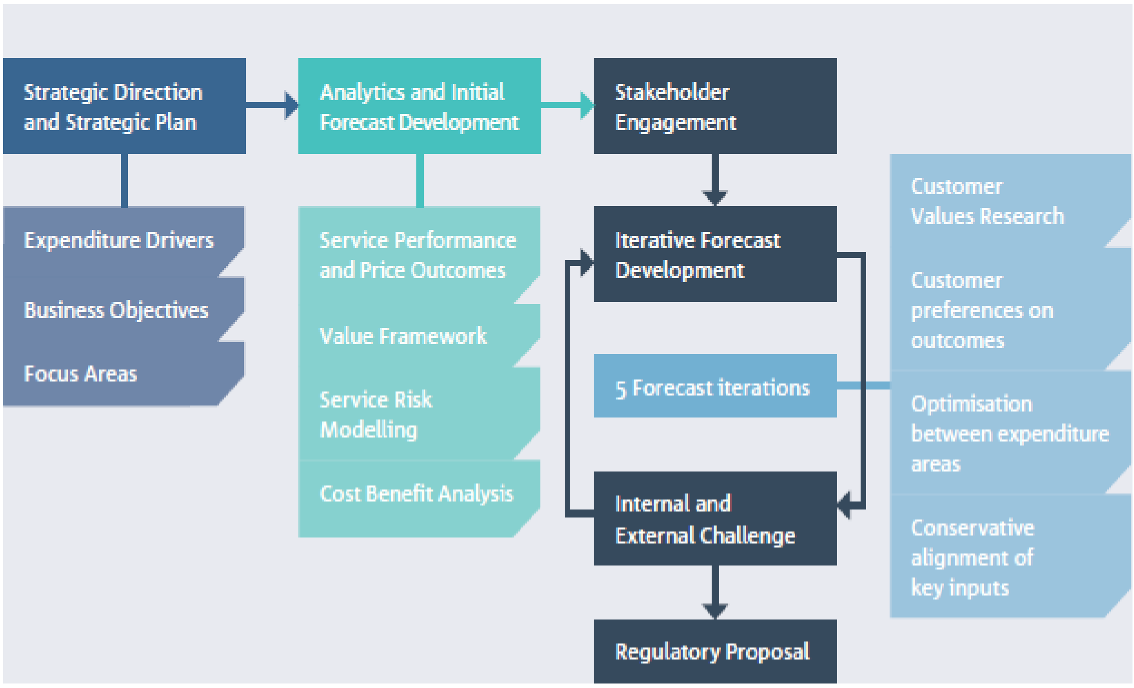
1. developing an expenditure forecast aligned to the expectations of our customers on the services and service levels we provide and the customer price outcomes for these services; and
2. aligning to the expectations and guidance provided by the Australian Energy Regulator (**AER**) in its Better Resets Handbook and related expenditure guidelines and guidance notes, and more broadly the National Electricity Objective (**NEO**) in the NEL and the NER.

The key features of our approach to forecasting expenditure are that we have:

- a sound organisational governance framework through which we continually take stock of long-term investment drivers by way of the challenges and opportunities facing our customers, community, and our network, and the implications for our customer services;
- comprehensive analytics to assess the impact of various investment drivers on the services we provide our customers and to form scenarios of alternative outcomes, particularly in the areas of assessing the effects of network asset condition and demand/export on service levels for customers at highly precise and granular levels;
- a multi-stage engagement program to develop our expenditure forecasts over five iterations with our customers, in a transparent, objective and outcomes focused way; and
- applied multiple tiers of external challenge by customers and internal challenge within our business to ensure that our forecasts are aligned to customer expectations, are reasonable in their cost estimation and as efficient as possible.

Further details on our approach are set out in our Expenditure Forecasting Methodology document.

Figure 3 Expenditure forecasting process

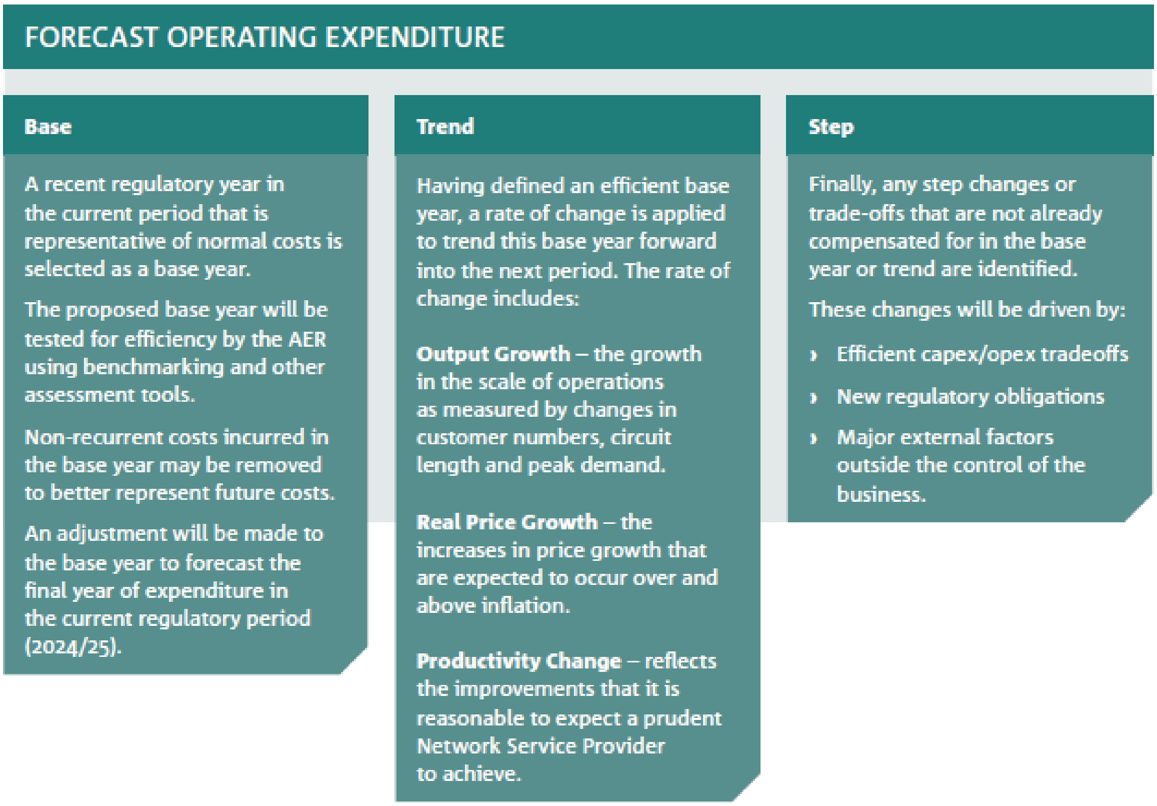


5.2 Operating expenditure forecasting approach

Our opex was forecast conforming to AER expectations as set out in the Better Resets Handbook, as follows:

- a 'Base-trend-step' approach was used to forecast opex.

Figure 4 How we forecast Operating Expenditure



6 Capital Expenditure Governance

6.1 Capital Expenditure Cycle

The capex process can be broken down into the following discrete stages:

- Business planning and budgeting;
- Capital project evaluation and approval; and
- Capital project monitoring and completion.

Figure 5 Capital expenditure process

Figure 6 summarises SA Power Networks' capital expenditure cycle.

Figure 6: Capital Expenditure Cycle Overview

Description	Business Planning	Capital Budget	Executive	Project Authority Approval	Expenditure Monitoring
Capital Expenditure Cycle					
Business planning and budgeting-> Evaluation and approval -> Monitoring and completion					
Business Planning					
Executive reviews and assesses performance against stated objectives.					
Goals and strategies refreshed, and broad targets established for forthcoming five-year planning period, including budget year.					
Capital Budget Process - Departmental					
Corporate Finance group determines & advises initial budget targets by department.					
Departments advise of committed prior year capex deferred to next budget year.					
Departments prepare initial project costings for budget.					
Departments undertake Risk Assessment & Ranking of individual projects.					
Departments provide Executive with budget program.					
Capital Budget Process - Budget Approval Executive reviews departmental budget programs. Executive endorses a final capital programme.					
Budget submitted to the Board for approval.					
Project Authority Approval					
Individual projects approved by Project Authority (**PA**) in accordance with delegations of authority.					
Risk Assessment and Financial Evaluation					
Unbudgeted projects above $100,000 require a detailed risk assessment and may require a financial evaluation where there are competing options for a given objective.					
Expenditure Monitoring					
Actual and forecast project expenditure monitored against approved PA. Regulated allowances reported to Department heads and Executive					
Project Revisions					
Over expenditure will require PA revision.					
Project Close-out and Other					
Projects must be closed out in a timely manner, as well as ensuring WIP and inactive SAP project codes are regularly monitored					
Project Close Out Report and Post Implementation Review (PIR)					
Project Close Out Reports are required for all projects between $0.5M - $1.499M while PIRs are required for all projects greater than $1.5M. Project Close Out Reports or PIRs below these thresholds may also be required at Executive discretion.					

6.2 Regulated Works Capital Budget Process

6.2.1 Development of Departmental Budgets

Annual departmental budgets are developed through the identification of projects that are individually costed and ranked in order of risk (the following section outlines the ranking methodology). Overall budgets are guided by the most recent regulatory determination for the year in question and 5-year financial plans provided to Board.

In their submission to the budgeting process, departments are also required to identify projects, to which commitment has been made within previous budgets, but which are yet to be completed.

Executive will review overall departmental budgets to ensure alliance with strategic priorities and targets.

6.2.2 Risk Assessment and Ranking Methodology

Competing proposals to achieve a given objective will generally be assessed based on a financial evaluation. The most favourable proposal on a net present value basis, will generally be the favoured project. The only exception to this principle is if the projects have differing risk profiles. For example, a lower cost option might have a higher risk. In these situations, a complete risk assessment must be prepared, so that the cost versus risk implications can be properly assessed.

Risk assessment is a primary criterion for selecting projects for inclusion in the budget. Risk, in the context of capital budgeting, can be described as the *likelihood* of adverse business *consequence(s)* if the capital project does not proceed in the budget year. This definition has the following key elements:

Likelihood
This is expressed in terms of probability ranges (%) and indicative frequencies of events, as shown in Figure 1 Strategic Framework.

Figure 7: Qualitative measures of likelihood

Measures of Likelihood

		Perception	Probability	Frequency
Likelihood	Almost Certain	It is expected to occur	>90%	More than once a year
	Likely	Will probably occur	61%-90%	Once a year on average
	Possible	May occur	21%-60%	One event per 2-5 years
	Unlikely	Not likely to occur	6%-20%	One event per 5-20 years
	Rare	Most unlikely to occur	<5%	One event every 20+ years

Consequence
This is the impact or repercussion(s) from an adverse event. Consequences may be widespread in their nature and are assessed for each of seven risk domains (ie financial, safety, environmental, reputation/customer service, legislative and regulatory, organisational and reliability). Qualitative measures of consequence are shown in Figure 8 below.

Figure 8: Qualitative measures of consequence

Risk Consequence Tables		Minimal	Minor	Moderate	Major	Catastrophic
Safety		**Ensuring the safety of our people and community, every day**				
Harm to a worker, contractor or member of the public		Non-permanent injury, requiring first aid only (i.e., minor cuts and scrapes)	Non-permanent injury, requiring medical treatment, but not requiring surgery or hospitalisation (MTI)	Non-permanent injury, requiring surgery and/or hospitalisation (LTI)	Permanent injury	Multiple permanent injuries
					Multiple non-permanent injuries, requiring surgery and/or hospitalisation (LTI)	One or more fatalities
Performance and Growth		**Achieving operational excellence and delivering on our commitments**				
Financial impact	Cash or earning impacts	<$1m	$1m – $5m	$5m – $25m	$25m – $100m	>$100m
	Litigation and/or penalties	<$100k	$100k – $500k	$500k – $2m	$2m – $10m	>$10m
Network		**Providing the foundation for the new energy future**				
Failure to transport electricity from source to load		<2,000 customers without supply for <12 hours	<10,000 customers without supply for <24 hours	<40,000 customers without supply for <48 hours	>40,000 customers without supply for >48 hours	Multiple CBD substations interrupted and/or widespread metro, regional, CBD outages (>24 hours) or statewide blackout
		Rural whole feeder outage or metro part feeder outage	Whole metro/town feeder outage or single CBD feeder interrupted	Multiple CBD feeders, multiple feeders, single substation, or single transmission line outage	CBD substation interrupted or significant and/or multiple substation transmission line or substation outages	
Customers		**Focusing on what really matters to customers**				
Failure to deliver on customer expectations		Localised customer complaint that can be rectified promptly	Multiple customer complaints that can be rectified promptly	Customer dissatisfaction resulting in statewide media coverage	Widespread customer dissatisfaction resulting in state and/or national media coverage	Customer dissatisfaction resulting in regulator or government intervention
		No impact on reputation, brand or customer trust	Minor impact on reputation, brand or customer trust	Loss of trust by customers in a single aspect of the business, customer may leave	Significant loss of trust by customers or strategic partners	Long term irreversible loss of trust by customers or strategic partners
Technology and Data Capabilities		**Efficient, effective and innovative data-driven decisions and processes**				
Disruption of access to, or use of, systems		Loss of system performance which can be absorbed without additional business action	Loss of system performance which can be absorbed for >1 week	Loss of system performance which can be absorbed for <1 week	Loss of system performance with material business impact in <1 day	Network control and/or billing systems inaccessible
Unauthorised access, modification or control of systems		Isolated unsuccessful attempt to breach IT systems	Breach of IT/OT systems with standard access, rectified with no impact	Breach of IT/OT systems with privileged access, rectified with management action	Breach of IT/OT systems with privileged access, which can be rectified with significant effort	Total loss of control and/or trust in network control and/or billing systems
Unauthorised access or disclosure of information		Unauthorised access or disclosure of information with no impact	Unauthorised access or disclosure of internal use information with no impact	Unauthorised access or disclosure of internal use information with some impact	Isolated unauthorised access or disclosure of highly confidential and/or customer data	Significant unauthorised access or disclosure of highly confidential and/or customer data

Risk Consequence Tables

	Minimal	Minor	Moderate	Major	Catastrophic
Sustainability	Contributing to a sustainable community and environment				
Environment/Social Damage, disturbance or unauthorised access to environment or areas of cultural significance	Isolated incident with no damage requiring remediation	Incident that can be immediately remediated	Damage that can be repaired in the short term (<1 year)	Reversible damage which requires 1–5 years remediation	Irreparable damage, or damage that requires >5 years remediation
Governance Non-compliance with regulatory, legislative and/or other obligations	Insignificant infringement with no penalty	Infringements resulting in negotiations with external stakeholders and/or voluntary amendment to practices	Infringements resulting in a direction from external stakeholders to amend practices and/or withdrawal of operational registrations and licenses	Infringement resulting in restrictions on distribution license and/or significant enforceable undertakings and remedies	Loss of distribution license Prison sentences for individuals
Advocacy, Partnerships and Collaboration	Proactive engagement within and beyond our industry				
Misalignment between stakeholders and strategic objectives	Minimal misalignment between stakeholder and strategy with no impact	Misalignment between stakeholder and strategy resulting in minor impact	Misalignment between stakeholder and strategy resulting in impact on delivery of a strategic objective	Material misalignment between stakeholder and strategy leading to multiple strategic objectives not being met	Material misalignment between stakeholder and strategy, leading to failure of strategic plan and/or business collapse
Culture and Workforce	An engaged, aligned and high performing workforce				
Misalignment in the beliefs and behaviours of workers, management and customers	Isolated individual disengagement with no impact	Individual disengagement with minor impact	Disengagement impacting group, team or locational operations	Material disengagement impacting departmental or cross-departmental operations	Widespread material disengagement impacting on our ability to meet service obligations

Budget year

By its nature, risk will change over time and a risk assessment will be based on the likelihood and consequences of the project not proceeding in the budget year.

Level of risk matrix

The risk assessment evaluates scores for likelihood and consequence against the risk matrix, for each of the seven risk domains to establish a level of risk, as shown in Figure 9.

Figure 9: Likelihood consequence outcomes

Risk Matrix

Likelihood	Consequence: Minimal	Minor	Moderate	Major	Catastrophic
Almost Certain	6 Medium	7 High	8 High	9 Extreme	10 Extreme
Likely	5 Low	6 Medium	7 High	8 High	9 Extreme
Possible	4 Low	5 Low	6 Medium	7 High	8 High
Unlikely	3 Negligible	4 Low	5 Low	6 Medium	7 High
Rare	2 Negligible	3 Negligible	4 Low	5 Low	6 Medium

The domain with the highest risk score becomes the final score for the project. Projects are ranked within the risk colour bands, from extreme (red) to negligible (green), according to their project score.

Projects with a risk rating of extreme (red) or high (orange) will be treated as "Priority". Projects with multiple medium (yellow) ratings across several risk domains might be treated as Priority, depending upon the circumstances.

6.2.3 Capital Budget Assessment and Endorsement

The Executive will assess the ranking of projects across the business and evaluate the retained level of risk against target expenditure.

The Executive may consider strategic objectives in assessing projects for inclusion in the capital budget. Strategic objective considerations may include:

- contribution towards identified strategic objectives of the business;
- contribution towards new business or regulatory requirements;
- workforce health and safety;
- environmental;
- customer service;
- network performance;
- technical standards and public safety;
- financial performance;
- productivity; and
- other identified benefits arising from the project.

The preliminary lists of projects for the budget are distributed back to Executives, who have the opportunity to review the list and request amendments.

The corporate finance group reviews any requested amendments and prepares a final capital budget and project list for submission to the Executive for endorsement and then to the Board for approval.

6.2.4 Capital Budget Approval

The Board approves the capital budget as part of the annual budget process.

6.3 Capital Evaluation and Approval Procedures

6.3.1 Project Approval

Capital projects over $30,000 must be documented and approved with a Project Authority (PA), prior to expenditure being committed.

PAs are to be approved according to the Board approved levels of financial delegation:

- proposals over $10M must be approved by the Board;
- proposals between $5M and $10M must be approved by any two of the following: Board Chairman, CEO and certain delegated directors;
- proposals between $1,000,000 and $5,000,000 must be approved by the CEO; and
- proposals $1,000,000 and less must be approved by the delegated officer in accordance with the schedule set out in the Financial Authorities listing.

Capital Projects below $30,000 do not require a PA, but require approvals in SAP by officers with the appropriate expenditure authority.

For each unbudgeted project over $100,000, the minimum required documentation includes:

- a PA (including appropriate approval);
- a copy of the risk assessment;

- where there are competing options for a given objective, an analysis of options demonstrating that the project is the least cost technically acceptable option available; and
- an indication of how the budget funds will be made available for this project.

For projects $500,000 or greater, the project classification and risk assessment prepared for the budget should be reviewed to identify any significant changes since the budget submission, updated where necessary and attached to the PA. An assessment will also be made of project's budget ranking, and if below the budget cut-off, full information provided as to why the project is still considered necessary to complete ahead of other projects.

For further governance and control regarding the project creation and approval process a systemised solution has recently been implemented within SAP ensuring all projects follow the relevant financial authority chain of approval up to the financial authority level of the CEO. The approval workflow provides an audit trail for approvals with the ability to provide comments. The systemised solution also caters for project revisions to ensure all approvals from project creation to close out are captured within SAP.

6.3.2 Reporting against regulatory allowances

The business has recently implemented a new reporting function using PowerBI which enables business owners to view expenditure at multiple levels and categories and track this expenditure against regulatory allowances. The Reset Steering Committee reviews the high level capital expenditure tracking at the category level (eg Repex, connections, etc.) of this reporting bi-annually to ensure we are on track to deliver what we committed to in our Regulatory Proposal and our strategy and enable any changes in funding budgets to be made with the impacts in mind.

6.4 Capital Monitoring and Completion

6.4.1 Capital Expenditure Monitoring

Projects and programs are tracked and reported monthly as a minimum for:

- approved budget;
- actual expenditure to date; and
- forecast to completion.

Project Managers are responsible for managing and completing capital projects within the approved project budget. With this responsibility is the need to seek re-approval of the project where the actual or forecast expenditure exceeds the approved project budget.
Project revisions must be approved (by officers with appropriate expenditure authority).

A monthly performance report that includes a high-level summary of the year to date capital expenditure against budget, commentary as to variances and updated forecasts is distributed each month to all the Executives for their information. In addition, it is presented to the ELT and Board members monthly.

Also, reports are provided to each Executive to enable their review in detail of the projects for which they are responsible, including a specific report identifying projects above or below expenditure thresholds.

6.4.2 Capital Expenditure Completion

All projects are required to be closed out in a timely manner in accordance with departmental close-out procedures. A monthly work-in-progress (**WIP**) ageing report is prepared to identify projects that have remained in WIP for a period beyond what would be expected.

Project Close Out Reports or Post Implementation Reviews (**PIRs**) are undertaken for completed capital projects according to the PIR threshold within 6 months of project completion. Project Close Out Reports are completed for projects with an approved value between $0.5M - $1.499M, while projects less than $0.5M may require a Project Close out Report based on variance to budget or at the request of the relevant executive. PIRs are completed for all projects greater than $1.5M while projects less than $1.5M may require a PIR as a result of variance to budget, reported LTI or fatal risk injury or as requested by the executive. The only exception to the aforementioned guidelines are for group capital projects relating to items such as plant, tools or spares etc.

The objective of conducting Project Close Out Report or PIR is to collect and utilise knowledge learned throughout a project to optimise the delivery and outputs of future projects. The results of each review will form the basis of achieving the following for future projects:

- optimum financial controls;
- lowest cost for the required outcome;
- leading edge design, construction and technical skills;
- leading edge project management, communication and customer liaison;
- maximum financial return with an acceptable level of risk; and
- improved decision-making.

The Project Close Out Report is less comprehensive than the PIR Report though still touches upon many of the items listed below that are documented within the PIR:

- project purpose;
- project scope;
- safety;
- project schedule;
- financial performance;
- customer management and satisfaction;
- technical evaluation;
- project closeout in SAP;
- compliance with relevant policies, procedures, guidelines and approvals:
    - risk management;
    - environmental management;
    - legislative requirements and regulations; and
    - compliance audits; and
    - issues raised / lessons learnt (positive and negative).

Depending on the type of capital project, some of the above items may not require review.

7 Operating Expenditure Governance

Operating expenditure (**opex**) is utilised to maintain and operate the distribution network assets and includes supporting corporate costs involved in providing distribution network services to customers.

Operating costs typically recur each year and are forecast based on historical expenditure, however there are a few exceptions, including guaranteed service level (**GSL**) payments and emergency response work which fluctuate with weather events. Some external factors may also arise which have a material impact on the recurrent nature of opex, an example being the COVID-19 pandemic which has affected some areas of expenditure over the last few years.

7.1 Operating budget process

Operating expenditure is governed by setting expenditure targets through the annual business planning and budget process (refer section 6 above), and the monitoring and reporting of expenditures against targets throughout the year.

Operating expenditure work plans are prepared annually (eg line inspection, vegetation management, maintenance programs, etc) to determine the work required to ensure that SA Power Networks meets its contractual, and legal obligations, the work required to meet the performance levels in the SA Electricity Distribution Code and the risk profile assumed in the budget process.

The work plan provides the framework for budgeting, and is essential to ensure that sufficient resource to complete the work is available during the year.

Annual operating budgets are presented to and endorsed by the ELT and subsequently to the Board for approval.

7.2 Operating monitoring

Monthly reporting against agreed key performance indicators is undertaken within each department and at a consolidated level to ensure that work plans and financial targets are achieved.

Material variations to targets require formal explanation and forecasting of outcomes is undertaken periodically against annual budgets and targets. Adjustment to work plans will be required where necessary to meet the overall strategic objectives of the organisation.

Consolidated reports are provided to the ELT and Board, including explanation of significant budget variations and forecast revisions.

Whilst expenditure approval is established through the budget process, compliance with SA Power Networks' Policies and Directives (eg Financial Management Policy/Directive, Procurement Directive) is monitored and reported to certify that governance standards are being met.