



Jemena Gas Networks (NSW) Ltd

IT Investment Brief – Contract Lifecycle Management

Non-Recurrent – Maintain & Compliance


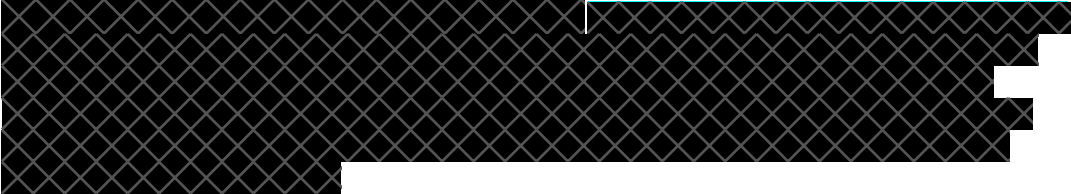


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Glossary

ACCC	Australian Competition and Consumer Commission
Capex	Capital Expenditure
CLM	Contract Lifecycle Management
Contract Value Leakage	When the expected value of a contract is more than the actual value. This is typically caused by poor contract management.
Current regulatory period	The period covering 1 Jul 2020 to 30 Jun 2025
EOI	Expression of Interest
ERP	Enterprise Resource Planning
ESG	Environmental Social and Governance
ICT	Information and Communications Technology
Jemena	Refers to the parent company of Jemena Gas Network
JGN	Jemena Gas Network
MSA	Modern Slavery Act
Next regulatory period	The period covering 1 Jul 2025 to 30 Jun 2030
NPV	Net Present Value
Opex	Operating Expenditure
RYxx	The regulatory year covering the 12 months to 30 June of year 20xx for years in a Regulatory Period. For example, RY25 covers 1 July 2024 to 30 June 2025
SaaS	Software as a Service
SAP	Systems Analysis Program Development
SOCI	<i>Security of Critical Infrastructure Act</i>
Totex	Total Expenditure

Contract Lifecycle Management

Objective	The objective of this initiative is to implement a Contract Lifecycle Management (CLM) System to effectively manage third-party contractors and ensure compliance with new and emerging obligations (e.g.  modern slavery, emissions reporting).		
Non-recurrent ICT sub-categorisation	<input checked="" type="checkbox"/> Maintaining existing services, functionalities, capability, and/or market benefits	<input checked="" type="checkbox"/> Complying with new/altered regulatory obligations/requirements	<input type="checkbox"/> New or expanded ICT capability, functions, and services
Background	<p>Jemena’s manual processes for managing third party contracts introduce unnecessary risk</p> <p>Jemena Gas Network’s current approach to managing third party contracts and suppliers can be summarised in terms of process, people, and technology:</p> <ul style="list-style-type: none"> Process – many fragmented processes across the business, existing inefficiencies as many are not modelled against best practice approaches. Key impacts include: <ul style="list-style-type: none"> The likelihood of human errors is amplified, which could lead to data breaches or unauthorised access to sensitive information. It is challenging to put strict governance mechanisms in place across manual processes, thereby increasing compliance risks. People – unclear ownership of contracts, limited governance to track compliance; inconsistent roles and responsibilities. There is heavy reliance on individual experience and expertise to govern Jemena’s contracts and meet regulatory requirements. Technology – multiple sources of truth, manual data entry, lack of automation at all stages of process. Key impacts include: <ul style="list-style-type: none"> Manual reporting is done to varying degrees of robustness and accuracy. There is a heavy reliance on scattered data sources which increases the risk of errors and inconsistencies. The absence of system automation slows contract execution and increases vulnerability to errors, such as extended processing times. <p>This is consistent with outputs from an Internal Audit of Contract Management which rated the risk associated as ‘Major’ impact and ‘Possible’ likelihood, representing a ‘HIGH’ risk.</p> <p>As part of this Audit, further review into events that have occurred within an 18-month period found significant loss to JGN has already been incurred due to these issues. Examples of the types of events include:</p> <ul style="list-style-type: none"> Overlooked discounts - >\$120K in discounts missed within JGN as contract allowances were missed. Extended processing time resulting in penalties - >\$195K revenue lost due to delays in manual contract creation and manual approval processes/ lost contract originals. Productivity impacts - as business, commercial and legal team members work through the process of resolving issues such as those listed above, there are associated productivity costs that would otherwise be avoided. <p>New and altered Regulatory and legislative requirements will require changes to the way in which we manage third party contracts</p> <p>There are new and emerging reporting and legislative requirements that Jemena is obliged to comply with which will be supported by the chosen solution. These include (but are not limited to):</p> <ul style="list-style-type: none">  		

¹ Security of Critical Infrastructure Act 2018 | (legislation.gov.au)

	<ul style="list-style-type: none"> • Modern Slavery Act 2018 (MSA)²: JGN must implement effective procurement practices to assess and address modern slavery risks across its operations and supply chains (for example, this might include system integrators or consultants), based on seven criteria. Proactive risk mitigation, including supplier screening and tiering of the supply chain, is crucial. A CLM will help minimise risk of non-compliance with this legislation. • Scope 3 Emissions Reporting³: Climate-related financial disclosures will soon include scope 3 emissions reporting (in addition to scope 1 and 2). Scope 3 emissions are those that occur up or down the supply chain and emissions associated with financing or investment activities. A CLM System addresses challenges in emissions reporting caused by reliance on individual supplier reports or internal estimations by providing a centralised data repository, standardised contract templates, automated reporting and tracking, supplier performance monitoring, and integration with environmental management systems for comprehensive reporting and analysis. 												
Customer Importance	<p>Implementing a Contract Lifecycle Management system is vital for improving our relationships with vendors and suppliers, ensuring a secure, reliable, and sustainable energy supply for our customers.</p>												
Key Considerations	<p>In considering whether and how to address the challenges that are detailed in the Background section, an open market Expression of Interest (EOI) process was completed by presenting the following key requirements to the market:</p> <ul style="list-style-type: none"> • A streamlined and efficient contract lifecycle management process, with clearly defined roles and responsibilities operating within market best practices. • Ability to easily locate any current contract including highlighted variations from the standard templates, with all participants within the contract negotiation and finalisation process operating from a single contract, with all versions maintained. • Oversight of current/upcoming contractual obligations, renewals and expiring contracts, improving the creation of the right contracts using standardised templates, pre-approved non-standard clauses and a streamlined e-signature and approval procedure for both internal and external participants. • Contract reporting and dashboard analysis providing visibility into the overall contract portfolio, including overall supplier/customer performance to improve performance during the term of the contract and renewal negotiations. <p>An initial impact assessment has been taken into consideration when assessing the options presented herewith. A summary is provided below:</p> <table border="1" data-bbox="379 1256 1461 1794"> <thead> <tr> <th>Change parameter</th> <th>Impact assessment</th> </tr> </thead> <tbody> <tr> <td>Suppliers</td> <td>Suppliers will receive a new way to collaborate, significantly improved from the current back and forward emailing of document attachments for execution</td> </tr> <tr> <td>Policy, Process & Procedure</td> <td>Processes and procedures will require creation to ensure a clear and consistent path forward for all stakeholders involved in the creation, negotiation and finalisation of contracts across Jemena.</td> </tr> <tr> <td>Technology</td> <td>There is no current CLM solution existing within Jemena, therefore ongoing support and maintenance costs will be included as part of licencing agreement created with the solution vendor.</td> </tr> <tr> <td>Organisational</td> <td>This project will mostly affect those that are part of the buy and sell contract creation and management processes and will provide training for those with responsibilities to manage contracts and provide awareness for all employees.</td> </tr> <tr> <td>Roles & Responsibilities</td> <td>Existing roles and responsibilities will be reviewed, and training will be provided to formalise responsibilities of those accountable for managing contracts.</td> </tr> </tbody> </table>	Change parameter	Impact assessment	Suppliers	Suppliers will receive a new way to collaborate, significantly improved from the current back and forward emailing of document attachments for execution	Policy, Process & Procedure	Processes and procedures will require creation to ensure a clear and consistent path forward for all stakeholders involved in the creation, negotiation and finalisation of contracts across Jemena.	Technology	There is no current CLM solution existing within Jemena, therefore ongoing support and maintenance costs will be included as part of licencing agreement created with the solution vendor.	Organisational	This project will mostly affect those that are part of the buy and sell contract creation and management processes and will provide training for those with responsibilities to manage contracts and provide awareness for all employees.	Roles & Responsibilities	Existing roles and responsibilities will be reviewed, and training will be provided to formalise responsibilities of those accountable for managing contracts.
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Options	<p>JGN has considered three alternatives as listed below:</p> <ol style="list-style-type: none"> (1) Do nothing – Not recommended. (2) Adopt a standalone Contract Lifecycle Management System (off the shelf/cloud based) – recommended. 												

² [Modern Slavery Act 2018 | \(legislation.gov.au\)](http://legislation.gov.au)

³ [Mandatory climate-related financial disclosures | Commonwealth Governmentt \(treasury.gov.au\)](http://treasury.gov.au)

- (3) Adopt a fully integrated Contract Lifecycle Management System (integration to existing SAP financial systems) – Not recommended.

Option 1: Do nothing

Description

JGN would continue to rely on existing manual processes with limited reporting and monitoring capability to manage third-party contractors and suppliers.

Benefits

By doing nothing, JGN would avoid incurring the costs and many of the risks outlined at Options 2 and 3 below in relation to the proposed initiative.

Risks

In the absence of necessary investment to support JGN’s contract lifecycle management, there may be the following key risks:

- JGN will have greater exposure to compliance risks by not adequately meeting the current and emerging compliance requirements (e.g. [REDACTED] MSA and emission 3 reporting).
- As detailed above in the Background section, there are significant operational challenges and risks which will continue to impact JGN. These are likely to continue to grow due to increased volume and compliance requirements, resulting in higher operating expenditure and potential of greater contract value leakage.
- Diminishing relationships with vendors and suppliers, ultimately leading to a decrease in customer satisfaction.

Summary

This option is not recommended. Doing nothing will result in increased likelihood of non-compliance with new and emerging legislative requirements. JGN also considers that it does not reflect good industry practice. Furthermore, it does not provide the lowest sustainable cost.

Option 2: Adopt a standalone Contract Lifecycle Management solution (off the shelf/cloud based)

Description

This option comprises implementation of a cloud based CLM system to provide lifecycle management, monitoring and reporting of third-party contracts.

Benefits

This approach would allow JGN to reduce the likelihood of risks outlined above in Background and improve efficiencies as outlined below:

People

- Enhanced Capabilities: Clear role definitions and accountability empower commercial contract personnel.
- Increased Customer Satisfaction: Swift response times and efficient risk management improve customer satisfaction.
- Productivity Increase: Automation reduces manual tasks, enhancing productivity.

Compliance

- Reduced Compliance Risk: Centralised visibility ensures compliance with regulatory requirements, supported by version control, access control, and encryption.
- Customisable Modules: CLM system modules cover Scope 3, MSA, and [REDACTED]

Process

- Improved Supplier Relationships: Centralised performance monitoring and tracking enhance relationships with suppliers.

Technology

- Value Preservation: Enhanced visibility of contract obligations reduces value leakage.
- Risk Management: Centralised, proactive risk management strengthens key controls' effectiveness.
- Real-time Data and Reporting: Agile reporting processes enable real-time contract management, influencing productivity and efficiency.
- Centralised Documentation: A centralised document management system reduces errors and decreases document management timelines.
- Cost Savings: Efficiency gains reduce administrative tasks, optimising contractor performance oversight. The effective management of contracts is a critical enablers of Jemena's financial performance.

Risks

Potential risks in relation to this option:

- The continued use of some of the legacy systems and workflows due to the nature of this standalone system. This would result in some manual workarounds regarding reconciliation of contracts information in various systems and approvals follow up.
- Inability to provide reporting of historical data if contracts are missed during data migration in future state.

Costs

The estimated costs for this option are outlined in the table below, based on the market scan conducted in 2023.

\$2023	RY26	RY27	RY28	RY29	RY30
Total Capex	-	-	-	-	-
Non-recurrent Opex	-	████████	████████	-	-
Recurrent-step Opex	-	████████	████████	████████	████████
Total Opex	-	████████	████████	████████	████████
Totex	-	████████	████████	████████	████████

This is an Enterprise-wide initiative; Costs have been allocated in accordance with Jemena Group Cost Allocation Methodology.

This option will incur non-recurrent totex costs for ██████████ ██████████ for the 2025-30 period to deliver contract lifecycle management capability.

Summary

This option is recommended as it is the most cost effective and meets our current and emerging business and compliance requirements. JGN considers that it best reflects good industry practice.

Option 3: Implement a fully integrated CLM solution

Description

This option considers implementing a fully integrated CLM solution to provide management of the lifecycle processes, as an alternative to adopting a standalone Contract Lifecycle Management System.

Benefits

In addition to the benefits listed in option 2 above, an integrated CLM with other systems has the added benefit of seamless data flows with little to no manual workarounds or hand-offs required.

Risks

The key risk associated with this option is that the upgrade of our core Enterprise Resource Planning (ERP) system to SAP S/4HANA is a priority and is a dependency that must be achieved before the CLM can be integrated.

Costs

\$2023	RY26	RY27	RY28	RY29	RY30
Total Capex	-	-	-	-	-
Non-recurrent Opex	-	████████	████████		
Recurrent-step Opex	-	████████	████████	████████	████████
Total Opex	-	████████	████████	████████	████████
Totex	-	████████	████████	████████	████████

This is an Enterprise-wide initiative; Costs have been allocated in accordance with Jemena Group Cost Allocation Methodology.

This option will incur non-recurrent totex costs for JGN of ██████████ and recurrent step opex of ██████████ for the 2025-30 period to deliver integrated contract lifecycle management capability.

Summary

This option is not recommended as we do not consider it reflects good industry practice given the risks outlined above. Furthermore, it does not provide the lowest sustainable cost as it is more expensive than option 2 and the upgrade of our core Enterprise Resource Planning (ERP) system to SAP S/4HANA is a key dependency that must be achieved before the CLM can be integrated.

Options Summary

The table below summarises the quantitative and qualitative differences between the analysed options.

	Capex (\$2023)	Project opex (\$2023)	Ongoing opex (\$2023)	NPV	Residual Risk
Option 1	Not applicable	Not applicable	Not applicable	Not applicable	High
Option 2	\$0	████████	████████	████████	Low
Option 3	\$0	████████	████████	████████	Low

What We Are Recommending

Jemena recommends Option 2 as it considers that it best reflects good industry practice and provides the lowest sustainable cost.

This option comprises implementation of a cloud based CLM system to streamline and manage the entire lifecycle of contracts by automating various tasks and providing centralised, secure storage and detailed tracking and reporting capabilities.

A CLM system will help Jemena improve efficiency, mitigate risks associated with new legislative requirements, and enhance compliance throughout the contract lifecycle.

<p>Dependencies on other Investment Briefs</p>	<p>This Investment Brief is also related and aligned to the following Investment Briefs for the 2025 - 2030 period;</p> <ul style="list-style-type: none"> • Enterprise Content Management - streamlined efforts through version control, access control, user authentication, and encryption will enable compliance with contractual requirements. • Cybersecurity Program - The Shift Left Model will ensure cybersecurity measures are incorporated into the CLM implementation from inception.
<p>Relationship to ICT Capital Forecast</p>	<p>The supporting modelling for this investment brief is contained in the following investment framework model: JGN - RIN - 4.3.5 - ICT Investment Brief – Contract Lifecycle Management – Costs and Benefits Analysis Model</p>