Company Procedure - Network Investment Governance CEOP0002.82

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1.0 PURPOSE

To provide guidance on the process to obtain endorsement for network investments to support investment decisions which are:

- streamlined – decision pathway flows are clear and efficient;
- consistent – assessment of needs, outcomes and risks are aligned; and
- relevant – appropriate information, both level and content, is submitted to the necessary forum to enable informed decisions.

To ensure those involved in the planning and preparation of the Network portfolio, as well as program/project approval documents, have a defined procedure to follow.

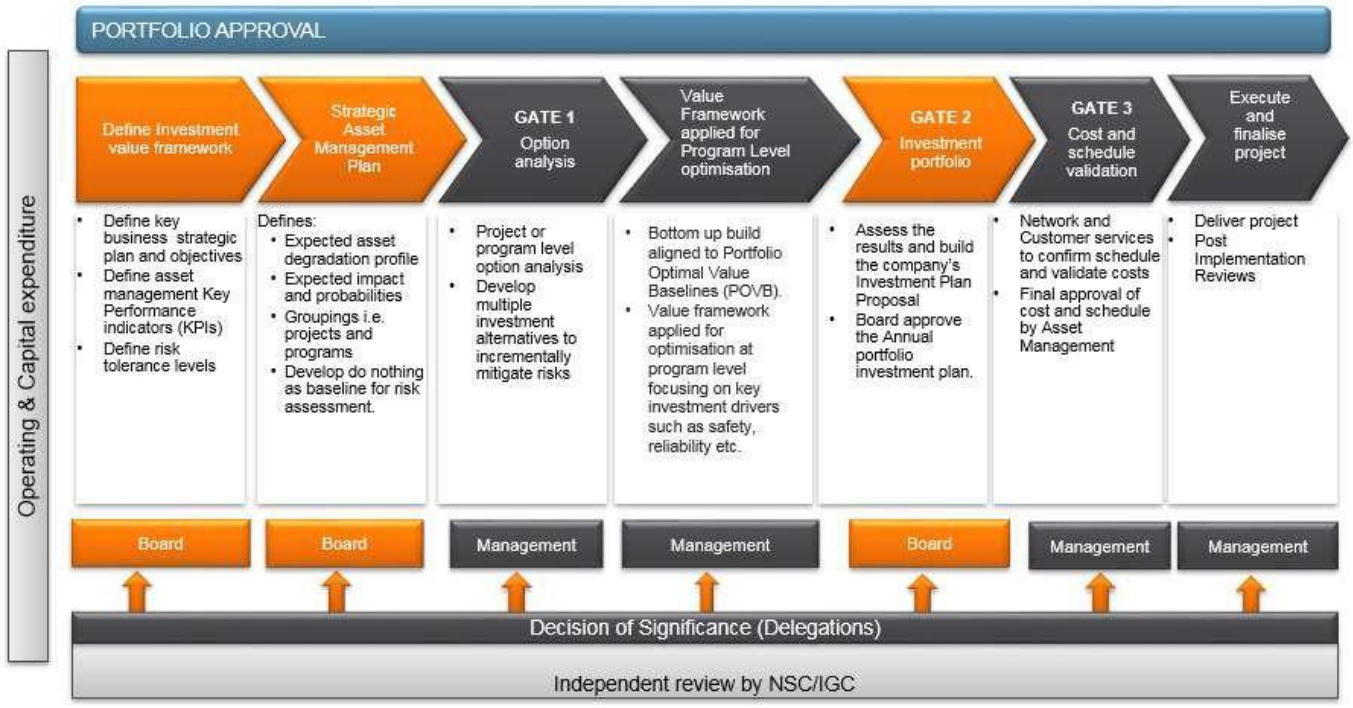
Investment approvals are to be obtained in accordance with applicable delegations and sub-delegation of authority.

This procedure applies to all network investments, whether operating or capital in nature.

2.0 ACTIONS

The company maintains an Investment Governance Framework (IGF) to provide clear guidance and accountability in respect of the development, determination and authorisation of investments, both network and non-system. This framework provides the basis for transparently and efficiently making investment decisions by considering a full lifecycle approach to such investments, and thereby providing assurance to the Board and other stakeholders that investment decisions made are efficient, consistent and informed. The key stages in respect of network investments are shown in Figure 1.

Figure 1 – Investment Governance Framework



Two committees support the IGF in respect of network investments: The Network Steering Committee (NSC) and the Investment Governance Committee (IGC). The purpose, duties and responsibilities of the committees are contained in each committee's charter.

2.1 Network Portfolio Planning Cycle

Both the Capital and Opex Portfolios will be produced as part of an annual planning cycle as shown in Figure 2 below. below.

It is expected that a Portfolio (whether Capex or Opex) will be developed a minimum of two years ahead of the year that is being planned. Currently Board Approval is March. We are working towards a November Board Approval by bringing forward the SOW every year. This will develop a pipeline of work and bring forward the planning and approval cycles (Figure 3).

Figure 2 – Capital Investment Portfolio Cycle

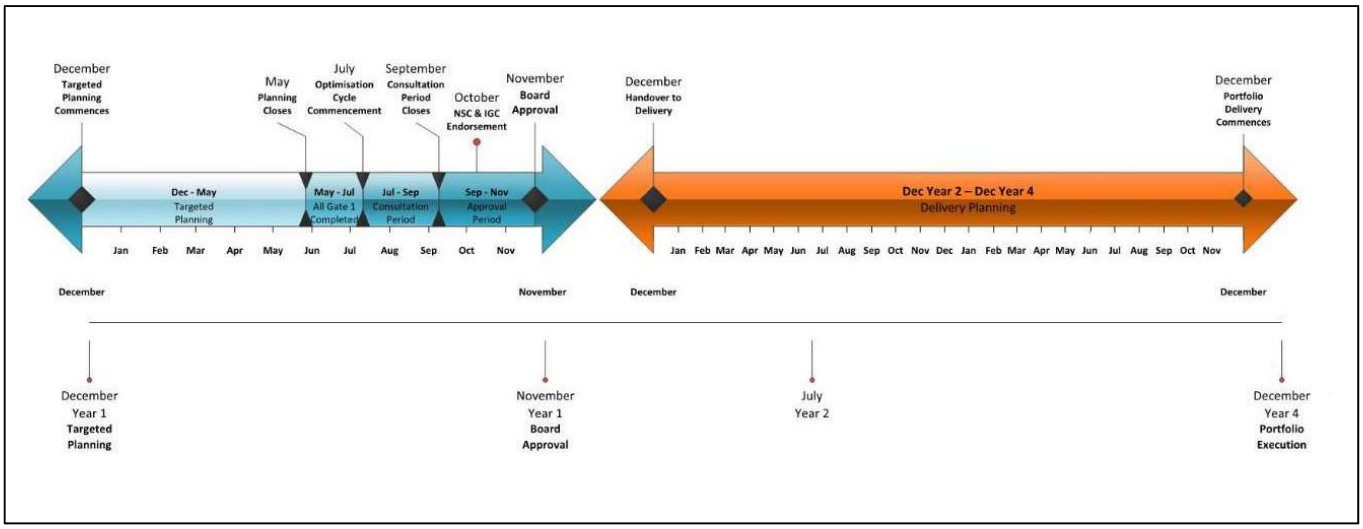
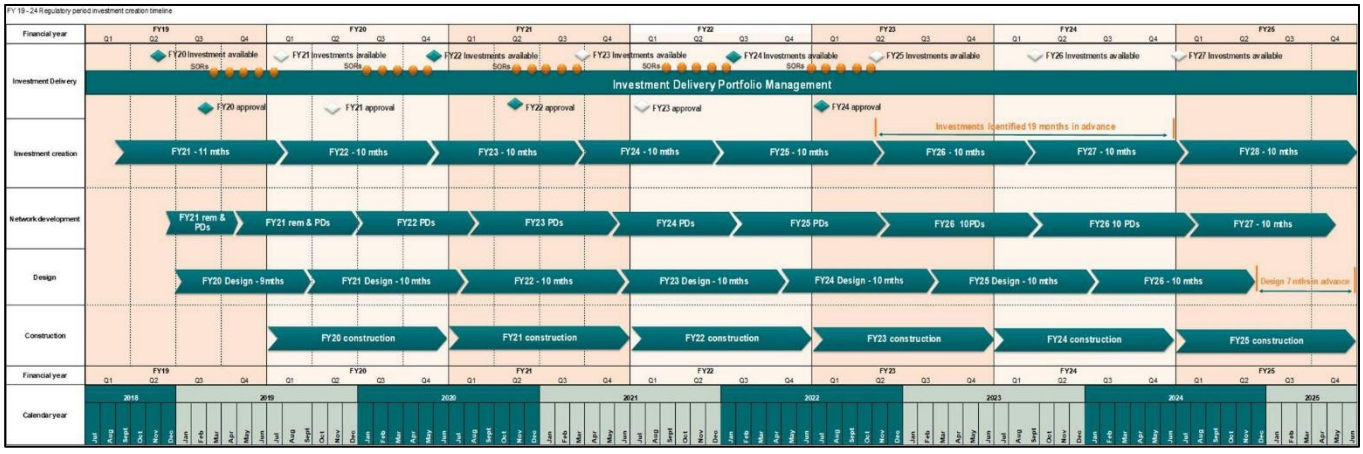


Figure 3 – Capital Investment Portfolio Cycle



2.2 Define Investment Value Framework

The Executive Manager Engineering (EM ENG) is to ensure the organisation's strategic goals are

reflected in the Network Investment Value Framework.

2.2.1 The Value Framework

The Manager Network Strategy & Risk is to develop and maintain the Network Investment Value Framework. This provides a clear line of sight from the corporate objectives and risk framework to network investments. Figure 4 shows the structure of the Value Framework.

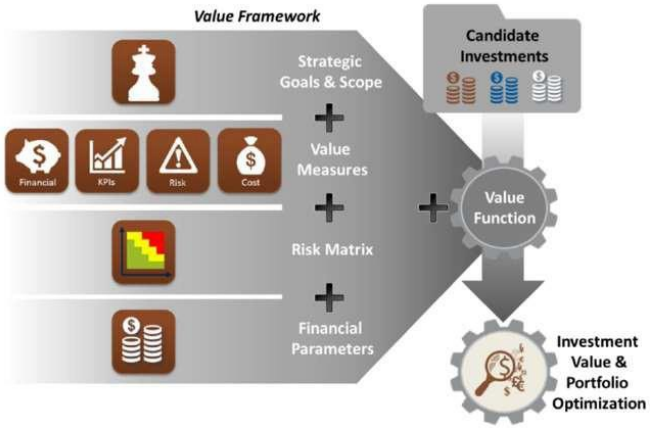


Figure 5 – Value Framework

This implements the principles of Value Based Decision Making, ensuring that investments are optimised consistently and objectively and in line with the organisations risk tolerability and appetite. A key concept of the value framework is that it assigns a financial value to all investments, reflecting the benefits, dis-benefits and costs of any investment.

The Value Framework must be submitted to, and approved by, the Board annually ahead of the submission of the Portfolio. All changes to the Value Framework are to be endorsed by both Finance and Risk functions within Essential Energy.

2.2.2 Asset Investment Planning System

The Executive Manager Engineering will maintain an Asset Investment Planning System to ensure integrity and consistency when creating investments.

Where practical, quantitative asset risk models are to be created and maintained for use in these systems and to assist staff to develop and evaluate risk profiles on Essential Energy assets and to derive value in investments.

Additionally, qualitative risk assessments are to be developed and maintained to allow these types of risks and benefits to be added to investments as required.

The Network Risk and Compliance Manager is responsible for the creation of, approval of and any changes to existing qualitative and quantitative risk assessments used in the creation of investments.
Where individual investments require bespoke risk models or benefit calculations to be created to reflect specific circumstances that are outside the scope of available generic models, justification is to be recorded.

The Asset Model Review Group will ensure controls are in place for the generation and currency of Asset data used in the Asset Investment Planning System. Asset data used in this

system will also be managed via controlled processes to ensure the accuracy and ensure documentation of any assumptions used to create the data. Asset data is to be refreshed periodically and specifically prior to the Optimisation cycle. Modelling data changes will be endorsed by NSC. Portfolio impacts >$2m (including contingency) to be approved by IGC.

2.3 Strategic Asset Management Plan

The Manager Network Strategy & Risk is to develop and maintain longer term asset plans and strategies, using consistent engineering policies and standards. Each year the Manager Network Strategy & Risk is required to revise the Strategic Asset Management Plan (SAMP) which contains the Asset Management direction for the company and the Asset Management Objectives which strive to achieve the Business Objectives.

The Manager Engineering is responsible for developing and maintained the engineering policies and standards used in the development of Asset Strategies. All policies and standards should be reviewed as per the predetermined cycle relevant to each standard/policy.

2.3.1 Directing the Asset Management System

The SAMP defines and guides the Asset Management System (AMS), which in turn co-ordinates the activities across all of Essential Energy to realise value across the whole life of our assets. The SAMP is a planning tool that clarifies intentions, priorities and certain practices that will be adopted within the AMS. It takes a long-term view, and considers the combination of organisation needs, stakeholder expectations, and the realities of existing assets and asset management capabilities.

2.3.2 Establishing Asset Management Objectives

In order to achieve value, a set of Asset Management Objectives have been established to measure the Asset Management System's performance. These objectives are aligned to the corporate objectives and the asset management policy. These objectives are based on the SMART principle (Specific Measurable Achievable Relevant and Time-bound) and are written in a way that is relevant to those who work across the life cycle of Essential Energy's assets.

2.3.3 Identifying Projects/Programs and Maintaining Line of Sight

Investment in the network is initiated in response to three broad categories of risk including:

1. network capacity constraints;
2. asset renewal needs; and
3. customer and network risks (such as power quality, reliability, street lighting responsibilities, metering responsibilities, spare parts etc).

Risk, once identified, are to be valued against the stated Asset Management Objectives. Solutions to addressing risk may include:

- Inspection Regimes;

- Maintenance Programs;
- Capital Investment in Assets;
- Operational and procedural changes; and
- Training and education.

2.4 GATE 1 - Options Analysis

Allocations and reactive investments consider options at a program level. High cost/complex defined capital works will have options to be considered at a project level. Longer term optimisation will be done on all options. C55 used to define total dollars per PIP line which are used as guidelines to develop the investments.

General guidance in respect of the development and selection of options is provided below:

*2.4.1 **Developing Options***

Like for like investments-is the equipment still required i.e. replace or retire or upgrade
Complex investments-options, cost and benefits.

For Capital Investment, a credible and reasonably exhaustive list of options should be considered. In determining the number of options and the level of analysis that is appropriate, the following factors should be considered:

- the level of uncertainty in relation to the investment (i.e. investment cost and delivery risk);
- the scale, type and reason for the investment (including uncertainty around need);
- the level of network risk throughout the asset lifecycle;
- the future asset requirements/life; and
- the expected costs of developing alternatives.

Analysis periods for each option should be comparable (i.e. the end of the assessment periods for all options should be aligned). In cases where asset lives are different, replacement value for shorter life assets need to be considered or residual values calculated for longer life assets. A key determinant of the length of analysis period is the specific objective being addressed and long asset lives under some options need not necessarily dictate long analysis periods.

Each option must be considered from both technical feasibility and financial feasibility perspectives, and all options under consideration need to comply with relevant regulatory and industry standards. Any departures need to be documented and justified. The customer's perspective should also be considered in option development as should innovation and technology solutions.

For Operating Investment, the five-year model developed for the AER Regulatory Proposal shall be used to develop individual program investments each year.

These investments will be adjusted annually as required, for considerations such as, but not

limited to, asset density variations or to incorporate changes to work practices.

*2.4.2 **Mandatory or Timing Constrained Investments***

During a Gate 1 review, any investments identified as “MUST-DO” or with firm date restrictions must also provide justification for forced inclusion to the portfolio.

*2.4.3 **Capex Gate 1 Process***

The Portfolio Optimisation & Governance Manager will be responsible for developing and communicating the Gate 1 process.

Prior to being submitted for Gate 1 Option Analysis, all investments require an initial scoping and estimate to be completed by Network Design branch in Asset Management. It is imperative that Key stakeholder consultation is undertaken at this stage.

Upon completion the Investment Owner will endorse the investment and submit for Gate 1 endorsement.

Once endorsed, the Investment will pass to the Optimisation & Governance team to co-ordinate a Gate 1 Review.

Based on value or risk thresholds, investments will be reviewed by the appropriate forum, and key documents endorsed as detailed in Table 2 below.

Table 2 – Key Documents

Investment$ Threshold (O’Head/Contingency exclusive)	Network Risk Threshold1	Documents	Committee Endorsements	Individual Endorsements
Investments <$1.5M (Defined Investments Only)	Low	Investment Summary	Portfolio Gate 1	Optimisation & Governance Manager
All Programs and/or any Investments >$1.5M (or by exception due to complexity)	Medium	Investment Summary	NSC	Optimisation & Governance Manager, Appropriate Level 3 Manager, Asset Management
Investments >$5m (Defined Investments only)	High	Investment Summary RIT-D	NSC	Optimisation & Governance Manager, Appropriate Level 3 Manager, Asset Management EM Engineering, Asset Management

*2.4.4 **Capex Gate 1 Activities***

All planned Investments are required to be reviewed by the Portfolio Optimisation and

Governance team for completeness and reasonableness.
Consultation will be undertaken with the Investment Owner at this time to clarify any manually derived or adjusted values as well as any added benefits in the Investment. Comparison should also be made to other like investments and compared to current unit rates to assess reasonableness.

Where an investment does not meet the required standard for progression to the portfolio, the Investment Owner is required to make the recommended changes and resubmit the revised investment for a Gate 1 review.

The following activities are expected be undertaken (in future years) as part of the Capex Gate 1 process:

- Review of investment content
- Review of valuation methodology
- Review of derived benefits
- Review of investment Risk
- Benchmarking comparisons
- Draft resourcing profiles
- Draft Investment estimate (including phasing)
- Draft schedule phasing (milestones)
- Delivery Risk identification

2.4.4.1 Investments Under $5M (exclusive)

Following successful review, investments under $1.5m exclusive will be set as ready for optimisation.

For Investments exceeding $1.5m exclusive, an Investment Summary Report is to be presented for additional peer review at the NSC meeting by the appropriate Level 3 Manager in Asset Management or their nominated delegate.

Following endorsement at the NSC, the investment will be set as ready for optimisation.

2.4.4.2 Investments Exceeding $5M (exclusive)

For large planned investments over $5 million that are subject to the AER's Regulatory Investment Test for Distribution (RIT-D), Essential Energy will undertake a detailed assessment process to determine whether or not to proceed with the investment. This should occur after Gate 1 review but before being set to optimisation.

The RIT-D is a cost-benefit test and public consultation exercise that electricity distribution network businesses must apply when assessing the economic efficiency of different investment options.

The Network Optimisation Manager is responsible for developing, maintaining and communicating the RIT-D process.

The recommended option is the one which maximises the economic benefit to all those who produce, consume, and transport electricity in the national electricity market (NEM).

The RIT-D requires distribution network businesses to:

- consult with community stakeholders throughout the RIT-D process;

- consider all credible network and non-network options as part of their planning processes;
- explicitly consider the wider market benefits of their investment decisions; and
- fairly assess non-network options, such as demand-side management, against network options.

[1] To be valued in accordance with the Asset Risk Management Procedure. Reflects the level of network risk introduced by the investment either during or after delivery.

The value of reliability to customers is measured by the Value of Customer Reliability (VCR). The VCR represents the willingness of customers to pay the reliable supply of electricity. It is used as a proxy to evaluate the economic impact of unserved energy to customers.

Detailed guidance for the calculation of the VCR is included in the Essential Energy Appraisal framework.

2.4.4.3 Capex Approval Pipeline

The Portfolio Optimisation & Governance Manager will maintain a process to monitor the progression of investments greater than $1.5m exclusive. A monthly briefing will be submitted to the NSC meeting detailing the expected dates for presentation to NSC.

2.4.4.4 Approval to Spend after Gate 1

A Gate 1 endorsement does not provide authority for detailed design, procurement of materials and services for the purposes of commencing construction or for internal staff to commence construction.

*2.4.5 **Opex Gate 1 Process***

All Opex Investments are required to be reviewed by the Portfolio Optimisation and Governance team for completeness and reasonableness.

Consultation will be undertaken with the Investment Owner at this time to clarify any manually derived or adjusted values as well as any added benefits in the Investment. Comparison should also be made to other like investments and compared to current unit rates to assess reasonableness.

Where an investment does not meet the required standard for progression to the portfolio, the Investment Owner is required to make the recommended changes and resubmit the revised investment for a Gate 1 review.

The following activities are expected be undertaken (future state) as part of the Opex Gate 1 process:

- Review of investment content
- Review of valuation methodology
- Review of derived benefits
- Review of investment Risk
- Benchmarking comparisons
- Draft resourcing profiles
- Draft investment estimate (including phasing)
- Draft schedule phasing (milestones)
- Delivery risk identification

It is imperative that Key stakeholder consultation is undertaken at this stage.

2.4.5.1 Approval to Spend after Gate 1

A Gate 1 endorsement does not provide authority for commencement of any inspections or maintenance work for the year defined within the investment.

2.5 Value Framework applied for Program Level Options Case

The Investment Delivery Manager is responsible for the development of a proposed Annual Network Capital Portfolio, applying a bottom-up build aligned to Portfolio Optimal Value Baselines.

2.5.1 Annual Network Portfolios

The Annual Network Capital Portfolio will be comprised of:

- Unitised Programs such as Pole Replacement Programs;
- Undefined Allocation Programs for reactive works that have a short planning horizon (defects within the year itself); and
- Planned Investments – developed by Investment Owners on review of the network or in response to long term Network strategy.

The Annual Network Opex Portfolio will be comprised of:

- Routine Inspection Programs such as Pole Inspection;
- Vegetation Management; and
- Planned Asset Maintenance Programs.

An allowance will also be made for both unplanned maintenance and direct expenditure required to manage the Opex Portfolio for both Standard Control and Alternate Control.

The Portfolio Optimisation & Governance Manager is responsible for submitting the consolidated annual Network Capital Portfolio to the NSC and IGC for endorsement and seeking Board approval.

2.5.2 Identifying & Applying Constraints

The Portfolio Optimisation & Governance Manager will ensure constraints to be applied to the Portfolio are captured and applied when optimising the Portfolio.

Table 3 lists the various constraints and consultative parties:

Table 3 - Portfolio Constraints

Constraint	Owner	Type of Constraint	Comment
Financial	Finance	Maximum	Exclusive of overheads
Resourcing – Design	Asset Management	Maximum	Resources required during the Design Phase of investments
Resourcing – Customer and Network Services	Customer and Network Services	Maximum	Resources required during the Construction phase of investments
Resourcing – Procurement	Procurement	Maximum	Limited availability of materials
Outage Schedule	Customer and Network Services	Date Ranges	May be utilised to assist with alignment of investments with integrated work delivery
Risk Outcomes	ELT/Board	Minimum or defined	E.g.: reduce overall Safety level by a defined amount across the Portfolio
Benefit Outcomes	ELT/Board	Minimum or defined	E.g.: to deliver a minimum ongoing Opex reduction across the Portfolio

*2.5.3 **Network Capex & Opex Portfolio Scenarios***

Consultation with various Engineering stakeholders and Customer and Network Services stakeholders is required at this time to also identify any delivery risks or constraints to the Capex Portfolio and provide resulting variations back to the Optimisation & Governance team to facilitate development of an agreed portfolio.

The Investment Delivery Manager is responsible to propose the final Portfolio to the Executive Manager Engineering and General Manager Customer and Network Services prior to Board submission.

2.6 Gate 2 Investment Portfolio

The Executive Manager Engineering is responsible for the submission of the Network Capital and Operating Investment Portfolio for Gate 2 Board approval.

*2.6.1 **Presentation of the Network Capex Portfolio for Approval***

The Draft Portfolio, once produced, is to include an internal resource requirement profile and milestone profile (Milestone and financial forecast once planning complete). Financial phasing should also be provided at this stage.

The Portfolio will also clearly detail the following:

- base costs (in nominal terms); and
- contingency amount (in nominal terms).

The Portfolio approved at Gate 2 becomes the baseline for the annual budget/SCI and for the regulatory proposal (in years when a proposal is submitted to the regulator).

NOTE: The Portfolio must be appropriately endorsed prior to Board submission (refer to the RACI Matrix in Section 6).

Following approval of the Portfolio by the Board, there may be a need to amend the Board Approved Portfolio in the July in the year of commencement to reflect any movement in the program due to the rollover of any undelivered portion of the prior year program or to consider any other impacts after the original Board approval. The review is to be undertaken by the Optimisation & Governance team, Network Strategy & Risk, Asset Management. The Portfolio is aligned to the works program baseline as agreed to with Customer and Network Services by the end of July and is known as the Approved Position.

The Approved Position and Baseline will both be reported on throughout the year.

*2.6.2 **Expenditure allowed following Gate 2 approval***

Gate 2 approval grants full investment approval for only the budgeted work within the given year. This could be for either for design only or construction only in the case of a multi-year investment or for both the design and construction work in a single year. All estimates in investments will detail the phases of the investment, resources required and completion date.

Generally, the nature of the expenditure could be for items such as:

- detailed investment design;
- detailed engineering assessment;
- procuring all equipment including long lead time items;
- initiating and awarding market tenders for equipment and/or services;
- land & easement acquisition;
- detailed investment construction cost estimate; and
- other similar work.

*2.6.3 **Customer and Network Services Engagement as Delivery Partner***

The approved Annual Capital and Operating Portfolio composition will be consulted with Customer and Network Services Delivery Managers during the Portfolio development and advised of the Gate 2 approval to proceed as soon as possible after approval, including details of the approved budget.

*2.6.4 **Creation of Planned Investments***

The Portfolio Optimisation & Governance team will initiate the creation of all defined Capital investments in the appropriate systems, including but not limited to WASP and PeopleSoft, after Board Approval.

Customer and Network Services will be responsible for all Opex work task creation in relevant systems after work task creation in relevant systems after Board Approval.
Additionally, all investments will be set to Executing in Asset Investment Planning System.

2.7 Gate 3 Cost and Schedule Validation

Customer and Network Services are required to manage validation of cost estimates and schedule where changes have occurred to the original estimate presented at Gate 2 approval.

2.7.1 Final approval of cost and schedule by Asset Management

Where cost and/or schedule estimates have increased by less than 20% from the original estimate presented at Gate 2, the investment will be returned to the investment owner to confirm the business need prior to proceeding for approval.

Where cost and/or schedule estimates have increased by more than 20% from the original estimate presented at Gate 2, then the investment cannot proceed for approval. The investment will be returned to Investment Owner for
further assessment, confirmation that the business need is still needed, and the investment still represents good value.

2.8 Execute and Finalise Investment

The General Manager Customer and Network Services (GM CNS), as delivery partner, is to manage investment delivery, whether delivered by internal resources or externally contracted resources. The GM CNS is to provide governance over program/project delivery so that the scope, as specified by Asset Management and Engineering, is delivered to an agreed time and budget.

The GM CNS will be responsible for developing a final delivery plan for the Portfolio including unitised replacements, inspection and maintenance programs and all defined investments. The delivery plan should also include Design and Construction. This plan is to be delivered to the Investment Delivery Manager and list all known delivery risks/issues. The delivery plan will be used as the agreed baseline for delivery.

2.8.1 Project Health Check (PHC)

The Portfolio Optimisation & Governance Manager is responsible for developing, maintaining and communicating the Project Health Check process.

At the completion of the Design phase, all planned investments will undergo a Project Health Check. The following activities are expected be reviewed as part of this process:

- Reconfirmation of investment requirement;
- Resourcing profiles;
- Contracts & Procurement;
- Total Investment Cost (including phasing), contingency and contingency management;
- Government and other approvals required or received, depending where we are in the project lifecycle;
- Schedule phasing;
- Spend and commitment to date;
- Delivery Risk identification and mitigation strategy development;
- Project Team identification;
- Lessons Learned;
- Project progress reporting plan; and
- PHC Risk Score rating (Portfolio metric).

2.8.1.1 Capex Tolerances Allowed

During PHC evaluation, it will be assessed if the scope, timing, and financial estimates are still consistent and within the allowable tolerance ahead of construction commencing. The Construction Cost and Schedule is developed by the delivery partner and reviewed and approved with the Project Sponsor to a pre-defined boundary of tolerances as per table 4.

Financial tolerance assessment is to include any contingency identified in the approved Gate 2 budget.

Table 4 – Capex Tolerances

Total Investment Value (Exclusive)	Financial Tolerance	Schedule Tolerance	Scope Tolerance
< $1.5M	Not to Exceed and control range to be nominated otherwise +/-20%	Within 6 months (same financial year) with no demonstrated dependencies	Impact to Value < 20% or $500k
>$1.5M*	Not to Exceed and control range to be nominated otherwise +/-10%	Within 6 months (same financial year) with no demonstrated dependencies	Impact to Value < 10% or $1M

* Investment value > $1.5m including contingency

If either scope, timing or financial tolerance are exceeded the identified variations must be managed via the Change Control Process. For information on the Change Control Process please refer to the Division Procedure (Network) – Change Control Procedure - CEOP7642.
Note: Expectation is one-week turnaround by investment owner.

Endorsement to proceed will be via submission to the Optimisation & Governance team.

NOTE: Investments within tolerance do not require a variation.

2.8.1.2 Capex Contingency

Contingency may be included in projects over $1.5m exclusive (substantially found in sub-transmission investments). No contingency is to be included in projects below this threshold.

Contingency is to be directly quantified against risk within the investment. It shall not be a generically phased, percentage based lump sum.

Contingency shall be included in the Portfolio composition and shows the portfolio risk amount.

Contingency, when applied, will not include corporate overheads.

Where an investment is identified as at risk of not being delivered within the Board approved cost, time, or scope (and within allowable tolerance) then a review process is to be commenced by Customer and Network Services then Portfolio Optimisation and Governance Team.

For investments where contingency has been identified and quantified, refer to the Division Procedure (Network) Cost Contingency Management - Major Projects - CEOP7638.

2.8.1.3 Opex Tolerances Allowed

The Opex programs are based on a unitised rate and number of units per year. As such no tolerance is defined.

For unplanned changes to Opex Investments refer to section 5.7.4 Managing Variation in the Portfolio.

2.8.1.4 Opex Contingency

The Opex programs are based on a unitised rate and number of units per year. As such no contingency is defined.

For unplanned changes to Opex Investments refer to section 5.7.4 Managing Variation in the Portfolio.

*2.8.2 **Contracts for Works within a Program***

Should a contract be awarded for external delivery of a program or project-type investment, it is the value of the contract that determines the delegated authority to approve the contract. Note that investment approval at Gate 2 does not constitute contract approval. However, investment approval is required before a contract can be awarded. Contracts and Procurement process must be followed.

*2.8.3 **Reactive Investments (Capex)***

Reactive work (identified during the year) will be funded from a Reactive Investment Portfolio and delivery will be agreed with the appropriate Delivery Manager in Customer and Network Services.

Investments are to be created by the appropriate Planning area within the Asset Investment Planning System. Reactive investments, other than approval, will follow the same process as standard investments.
All reactive investments will be approved under delegated authority via workflow within the Asset Investment Planning System.

No optimisation of reactive investments will be undertaken, unless funding contention exists within the Reactive Investment Portfolio. Funding will be allocated on a “first come” basis until funding contention exists.

The Portfolio Optimisation & Governance team will monitor funding levels within the Reactive Investment Portfolio and consult with the appropriate Planning Manager and Delivery Manager when funding contention is identified.

Any changes resulting from a required optimisation are to be agreed to between Planning and Delivery, and where appropriate Change Controls are to be submitted.

*2.8.4 **Managing Variation within the Portfolio***

The Optimisation and Governance Manager will be responsible for the development and maintenance of the Division Procedure (Network) – Change Control Procedure - CEOP7642.

Where the current Gate 2 investment approval, including contingency, is forecast to be exceeded, the Investment Owner is to be consulted to confirm that the investment is still required. After consultation, where delivery and risk outcomes cannot be achieved within existing approval limits and there are no opportunities available to bring the investment back within budgeted direct cost, time or scope a variation is required to be submitted – refer to Division Procedure (Network) – Change Control Procedure - CEOP7642.

All variations should be submitted to the Integrated Works team before going to the Optimisation & Governance team via the completion and submission of a Change Control template.

Note: Where there have been previous variations approved, the approved value must include the entire current approved value.

A variation in costs due to a change in overheads does not trigger a change control. Variations in overheads are governed through the monthly financial reporting process managed by Finance.

A report is to be submitted to the IGC monthly by the Investment Delivery branch highlighting all approved changes throughout that month.

*2.8.5 **Reporting on Portfolio Progress***

The Portfolio Optimisation and Governance Manager is responsible for reporting on the Portfolio's progress during the financial year. Consultation on reporting metrics should be agreed at the commencement of each financial year with the EM ENG, GM NS, IGC and the Board.

The reporting should encompass both Capex and Opex actual costs incurred and forecast year end position actual costs incurred and forecast year end position, as well as confidence levels around high spend investments.

Any identified variations from the approved position, to a metric of +/- 20% are to be investigated. A Portfolio risk and issue register should be maintained and reported. Recommendations should also be provided with the monthly report of mitigative actions and decisions required to improve the performance of the Portfolio.

*2.8.6 **Post Implementation Reviews (PIR)***

2.8.6.1 Capex Process

The Portfolio Optimisation and Governance Manager is responsible for developing and maintaining the PIR process for Capital investments.

All Capital investments over $1.5m exclusive are to undertake a formal Post Implementation Review (PIR) when construction has completed, or timing otherwise agreed. Its purpose is to evaluate whether investment objectives were met, to determine how effectively the investment was run, to learn lessons for the future, and to ensure that Essential Energy obtained the greatest possible benefit from the investment. Where appropriate, learnings from this process are to be incorporated back into relevant asset management strategies.

The PIR will include also detail any follow-on actions including assigning of benefits realisation as appropriate.

For Capital investments under $1.5m exclusive, The Portfolio Optimisation and Governance team will direct a sample group of these projects complete a PIR each year to capture lessons learned and for process improvement purposes.

The Portfolio Optimisation and Governance Manager is responsible for developing and maintaining the Lessons Learned process for Capital Investment.

2.8.6.2 Opex Process

The Manager Engineering is responsible for ensuring appropriate review processes are developed and maintained for Opex Investment.

For Opex Investments, where a contractor has been engaged, a contract review should also be undertaken periodically.

As many Opex programs represent the execution of strategy, annual assessments should be made to ensure that the strategy is still valid, and the execution of the strategy is on track. Learnings from all Opex reviews should be incorporated into future investment strategies.

3.0 AUTHORITIES AND RESPONSIBILITIES

ARCI/RACI Key:

Abbreviation	Definition
A	Who is accountable; the person who makes the final decision and has ultimate ownership
R	Who is responsible; the person who is assigned to do the work
C	Who is consulted; the person who must be consulted before a decision or action is taken
I	Who is informed; the person who must be informed that a decision or action has been taken

3.1 Executive Level Responsibility

	EM ENG	GM NS	CFO	CEO	NSC	IGC	BOARD
NETWORK INVESTMENT GOVERNANCE PROCEDURE (THIS DOCUUMENT)	R	I	I	A	C	CI	I
ENGINEERING POLICIES AND STANDARDS AND CHANGES	R/ A (DELEGATION)	C	I	A (DELEGATION)	I	I	A (DELEGATION)
THE STRATEGIC ASSET MANAGEMENT PLAN	R	I	I	A	I	I	I
THE VALUE FRAMEWORK	R	C	C	C	I	C	A
GATE 1 ENDORSEMENT (OVER $1.5M EXCLUSIVE)	A	C			R	I	
GATE 2 PORTFOLIO APPROVAL	R	C	C	C	C	C	A
STRATEGIC DELIVERY PLAN	C	R	I	A	I	C	I
VARIATION APPROVAL FOR INVESTMENTS AND PROGRAMS WHICH ARE WITHIN DELEGATED AUTHORITY	R/ A (DELEGATION)	C	A (DELEGATION)	A (DELEGATION)	C	C	A (DELEGATION)
BENEFITS REALISATION/MANAGEMENT	A	R	I	I	C	I	I
INVESTMENT RISK MANAGEMENT	A/R	C	I	I	C	C	I
PORTFOLIO REPORTING	A/R	C	I	I	C	I	I
DELIVERY REPORTING	C	A/R	I	I	C	I	I

3.2 General Responsibility

	EM ENG	GM NS	INVESTMENT DELIVERY MGR	PORTFOLIO OPTIMISATION & GOVERNANCE MGR	MGR NETWORK STRATEGY & RISK	NETWORK COMPLIANCE & RISK MGR	MGR NETWORK OPTIMISATION	MGR ENGINEERING	HEAD OF NETWORK DELIVERY	MGR NETWORK DESIGN	MGR INTEGRATED WORKS DELIVERY
DEVELOPING THIS PROCEDURE	A	C	R	R	C	C	C	C	C	C	C
ENGINEERING POLICIES AND STANDARDS	A	I	C		C		R	R	I	I	I
STRATEGIC ASSET MANAGEMENT PLAN	R	I	I		R		C	C	I		
VALUE FRAMEWORK	A		C		R	R					
ASSET MODELS	A				R	R	C	C			
ASSET DATA	A					C		R			
ASSET INVESTMENT PLANNING SYSTEM	A		R		C						
INVESTMENT DEVELOPMENT	A		C	C			R	R		R	C
GATE 1 PROCESS	A		R	R	C	C	C	C	C	C	C
GATE 1 ENDORSEMENT			A/R	R	C	C	C	C	C	C	
GATE 2 PORTFOLIO APPROVAL	R	I	R	R/C	I	I	I	I	I	I	I
PROJECT HEALTH CHECK			A	R			C	C	I	C	C
PORFOLIO REPORTING	A	I	R	R					I	C	C
DELIVERY REPORTING	C	A	C	C	I		C	C	R	C	R
DELIVERY RISK MANAGEMENT	I	A	C	C			C	C	R	R	R
BENEFITS MANAGEMENT	A	I	R	R	I	I	C	C	I		C
DELIVERY PROCESSES	I	A	C	C	C		C	C	R	C	R
CHANGE CONTROL (VARIATION) PROCEDURE	A	I	R	R	C		C	C	C	C	C
VARIATION APPROVAL FOR INVESTMENTS AND PROGRAMS WHICH ARE WITHIN DELEGATED AUTHORITY	A/R	I	R	R	C		C	C	C	C	C

4.0 DEFINITIONS

Approve/Authorise
To formally give sanction to a decision that may have internal or external consequences. An approver only has the authority for decisions within the scope of their normal area of responsibility and delegation.

Asset appraisal/ value framework (AVFS)
The Essential Energy Appraisal framework document is used for assessing the cost, risk, and benefits of business decisions. It is designed to be used as a tool to guide risk-based decision-making in areas such as investment prioritisation.

AVFS is a supporting document which sits under the risk management framework and provides the fundamental cost of consequence assumptions which are used to determine the common risk value.

Augmentation
The replacement of an asset with one of greater capacity or functionality or the addition of an asset to give that part of the network greater capacity or functionality. Definition also applies to the term “upgrade”.

Baseline
For the Portfolio, the baseline is the listing of investments targeted for investment during the financial year initially recorded in the Portfolio approved by the Board (Gate 2). The Portfolio baseline is nominally set in November and reconciled to the SCI each year.

The baseline will in turn undergo monthly phasing of dollars and milestones, as included in the annual statement of works.

Capital
Any investment, network or non-system expenditure which provides service potential or future economic benefit to the company.

Change Control (Program or Planned Investment (Project))
A Change Control produced by the business to document changes in Time, Cost or Scope, on investments in the Portfolio. The Manager Network Strategy and Risk manages the Investment Change Control process**.**

Distribution Annual Planning Report (DAPR)
A report that documents the sub-transmission system load forecast and ratings for zone substations and sub- transmission lines. Constraints and future investment needs are also identified. The DAPR also contains a number of specific sections to meet National Electricity Rules requirements covering areas including network statistics, forecasting methodology, demand management, joint planning, network performance and asset management strategy. This report is updated annually and published in December. The report is publicly available.

Direct Cost
Represents all costs charged to an investment other than divisional and corporate overheads. The quantity and cost of materials, material on costs, fleet costs and contractor costs, as well as the cost of direct labour and labour on costs engaged on the task, are included in the direct costs. Also known as Exclusive. Also known as Exclusive.

Endorse
To express support for a decision.

Estimated Investment Cost
Investment related expenditure that includes the direct capital cost and benefit of the investment, direct operating cost of the investment, allocated overhead cost, plus contingency.

Executive Leadership Team (ELT)
The Executive Leadership Team comprises the direct reports of the Chief Executive Officer.

Gate 1
The review stage managed by the Network Strategy and Risk, Optimisation & Governance team where investments undergo final option technical review and analysis and seek NSC endorsement where appropriate ahead of inclusion in the Portfolio.

Gate 2
The overall Portfolio approved by the Board and forms the baseline for the annual budget/SCI.

Gate 3
Defined projects final cost and schedule validation by Customer and Network Services (CNS). If cost and schedule are outside of Gate 2 accuracy tolerance then investment is sent back to Investment Owner for decision (recycle, approved, hold or kill). If cost and schedule are within Gate 2 accuracy tolerance, then investment returned to Investment Owner to confirm investment reason is still required.

Governance
Governance is the way the rules, norms and actions are structured, sustained, regulated and held accountable.

Investment Governance Committee (IGC)
A committee of Essential Energy that supports the Chief Executive Officer and the Board in the evaluation of Capital Investment Portfolios across Essential Energy. The purpose, duties, membership, and responsibilities of the IGC are contained within the committee's charter.

Investment Evaluation Unit
A Finance-led group who conduct financial analysis and review of investment proposals in accordance with the Company Procedure – Investment Evaluation.

Investment Owner
The Investment Owner is responsible for identifying and justifying the investment need and value.

Investment Sponsor
The Investment Sponsor has end-to-end responsibility of project delivery on behalf of the Investment Owner and ensures the project delivers the agreed business benefits.

Strategic Asset Management Plan (SAMP)
Contains the Asset Management direction for the company and the Asset Management Objectives which ensure the Business Objectives are achieved.

Network Capital
Capital investment in assets that directly forms part of, or directly supports the Company's transmission network, sub-transmission network or distribution network e.g. transmission, sub-transmission, distribution substations and feeders; meters; public lighting, telecommunications, SCADA or the network assets and system-related property holdings.

Nominal Costs
An economic value expressed in the dollars of the day (i.e. cost estimates inclusive of adjustments

for CPI).

Network Steering Committee (NSC)
A committee that supports the IGC in the evaluation of network investments. It provides increased alignment of programs by applying consistent review criteria. The purpose, duties, membership, and responsibilities of the NSC are contained within the committee's charter.

Operating Expenditure
Expenditure required for the carrying out of works or the supply of goods and services required for the day to day functions of the company.

Optimising the Overall Portfolio Investment Plan
Determine and evaluate the cost, benefits, and risks for each level of investment funding and then optimising funding across all functional areas based on the evaluated investment funding.

Overhead Cost
Expenditure necessarily incurred in supporting value adding tasks/activities that cannot be readily identified as the portion belonging to the value adding task/activity. Overheads are required to be included in approval amounts for Gate 2, and variation approvals. The overhead rate to be used is the SCI budget overhead rate for the respective year.

Project Health Check (PHC)
A technical assurance validation that an investment is ready to move to next stage. PHC score shows project readiness to proceed. PHC improves the probability of investment and project success.

Project Implementation Review (PIR)
Closure report to be developed at the completion of a project. Will cover performance of standard metrics such as cost, schedule, scope but also incorporate benefits realisation and lessons learned to be utilised in business improvement.

Portfolio
A group of planned and program-type investments at the company level or within a manager's area of responsibility.

Portfolio Optimisation Value Baseline (POVB)
Unconstrained baseline captured in the first stage of the annual cycle to develop the Portfolio.

Program
In the context of a network-based program, a collection of planned investments that are either:

- Similar with respect to their asset category, delivery and objectives; and/or
- Are independent of each other but share or contribute to a common risk profile.

Planned Investment
A Planned Investment is a discrete, non-recurring scope of effort that has explicit objectives and operates via a nominated schedule, budget and resources. Also referred to as a Project.

Real Costs
Cost estimates in terms of the dollar in the year of interest. This may be the present year or the year when the investment is planned to commence.

Refurbishment
Action to restore the functionality or performance of an existing asset through specialised, non-routine maintenance works.

Renewal
The activity of restoring the functionality and performance of an asset or group of assets. May include refurbishment or replacement works.

Replacement
The substitution of one asset (usually at the end of its life) with another (usually new or with substantial remaining life).

Reliability Works Program (RWP)
Annual program of works to address reliability risks within the network.

RIT-D
AER's Regulatory Investment Test for Distribution.

SCI (Statement of Corporate Intent)
A document which outlines objectives, major activities, and performance targets for the financial year for Essential Energy, consistent with the Government's policy and budgetary requirements.

Upgrade
The replacement of an asset with one of greater capacity or functionality, or the addition of an asset to give that part of the network greater capacity or functionality. This is also known as "augmentation".

Value-Based Decision Making (VBDM)
The VBDM approach can be simplified into two primary activities:

- Develop a unique Value Framework that captures the organisation's key Value Measures, financial parameters and risk matrix, and are aligned with the overall strategic goals; and
- Framework used to evaluate and optimise potential investments.

5.0 REFERENCES

Internal
Board Policy – Delegation of Powers and Functions to the Chief Executive Officer – CECP0001.01
Board Policy – Governance - CECP0002
Board Policy – Risk Management - CECP0002.03
Company Policy – Sub-Delegations of Authority by the Chief Executive Officer - CECP0001.02
Company Policy – Investment Governance Framework - CECP0002.30
Company Procedure – Investment Evaluation - CECP0002.32
Division Procedure – Governance Cost Contingency for Major Projects - CEOP7638
Division Procedure – Change Control Procedure - CEOP7642
Division Procedure – Network Strategy - Reliability Strategy - CEOP2463
Division Procedure – Network Strategy - Demand Management Strategy – CEOP1121
Reference Material - Network Strategy – Power Quality: Summary - CERM7665.10

External
Electricity Supply Act, 1995 (NSW)
ISO 31000:2009 – Risk Management – Principles and Guidelines
AS Records classification handbook – HB5031 – 2011
General Retention and Disposal Authority: Administrative Records GA28
NSW Treasury Risk Management Toolkit for the NSW Public Sector (TPP12-03)

6.0 RECORDKEEPING

The table below identifies the types of records relating to the process, their storage location and retention period.

Type of Record	Storage Location	Retention Period
Strategic Asset Management Plan	Essential Energy Business Management System (BMS)	Required as State archives – GA28 19.14.1
Asset Management Plans / Investment Cases / Network Strategy Documents / Strategic Delivery Plan	SharePoint	Retain minimum of 7 years after plan is superseded, then destroy - GA28 19.14.3
PIP List	SharePoint	Retain minimum of 7 years after action completed, then destroy - GA40 6.4
Gate 2 Project Approval	NPDB	Retain minimum of 7 years after disposal or decommissioning of the asset, then destroy - GA40 6.4
Gate 2 Program Approval	SharePoint	Retain minimum of 7 years after disposal or decommissioning of the asset, then destroy - GA40 6.4
Gate 3 Project Approval	NPDB	Retain minimum of 7 years after disposal or decommissioning of the asset, then destroy - GA40 6.4
Gate 2 Program Variation	SharePoint	Retain minimum of 7 years after disposal or decommissioning of the asset, then destroy - GA40 6.4

Gate 3 Project Variation	NPDB	Retain minimum of 7 years after disposal or decommissioning of the asset, then destroy - GA40 6.4
Change Controls	SharePoint	Retain minimum of 7 years after disposal or decommissioning of the asset, then destroy - GA40 6.4

* The following retention periods are subject to change eg if the records are required for legal matters or legislative changes. Before disposal, retention periods should be checked and authorised by the 'Records Management Team'.

7.0 REVISIONS

Issue No.	Section	Details of changes in this revision	Change Risk Impact?
2	Numerous	Cosmetic and minor changes – see marked up version for all changes made	Low
2	5.4	Gate 2 approval sought from the board at the same time as Gate 1 for PIP programs - Reduces the need to go to the Board twice.	Low
2	5.6.1 5.8.2	Table showing approval changed to approved based on Sub delegation policy – Reduces the need to rewrite if job titles change.	Low
3	All	Updated to remove the need to include corporate overheads.	Low
4	All	Interim Governance update to reflect state of Asset Risk, Value Models and C55 use in conjunction with NPDB.	Medium
5	All	No changes were required, updated issue number and published date only.	Low