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# ***AMI PROGRAMME***

## ***PROCUREMENT STRATEGY***

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# 1 Document Purpose

The purpose of this Procurement Strategy is to:

- Present a framework for the effective management of procurement metering activities for the period from 1 January 2008 to 31 December 2013 by CHED Services on behalf of CitiPower Pty (CitiPower) and Powercor Australia Ltd (Powercor);
- Provide a link to business direction ensuring that procurement activities are aligned with strategic goals as outlined in the Corporate Business Plan;
- Set the principles which will guide ongoing decision making related to procurement of metering activities;
- Outline the projects and initiatives to be undertaken to ensure effective resource allocation and alignment to strategic business direction;
- Facilitate ownership and governance of the Procurement Strategy and adopt an integrated stakeholder driven approach to procurement investment that is in line with leading practice;
- Ensure that the Procurement Strategy supports the Advanced Metering Infrastructure (AMI) Business Plan and Strategies; and
- Seek endorsement from the AMI Steering Committee for the Procurement Strategy.

## 2 Objectives

The following are the objectives of the Procurement Strategy to ensure that the best outcomes for the Business are delivered:

- Value – delivery of a solution that delivers the most cost effective solution outcome;
- Compliance – ability of the solution to deliver all the functional specifications and service level requirements as set out in the Minimum State-wide Functionality Specification and Minimum AMI Service Levels;
- Network Impact – compatibility of the solution with the distribution network;
- Reliability – ability of the solution to consistently deliver the required functionality and services when required;
- Future proofing – ability of the solution to meet future changes in the Minimum State-wide Functionality Specification and Minimum AMI Service Levels;
- Solution maturity – the solution can be demonstrated in the field with a significant number of end points meeting the required functional and performance requirements; and
- Security – the solution must demonstrate effective security controls to safeguard system and personal information.

### 3 Background

The Victorian Government has mandated the rollout of AMI to all customers consuming less than 160MWh per annum of electricity over the period from 2009 to 2012. The legislative basis for the rollout was established in August 2006 through amendments to the Electricity Industry Act 2000. The amendments also provided powers for the Victorian Government to create a number of Orders In Council relating to areas including cost recovery, functional requirements and service standard specifications. The announcement of the AMI project follows an extensive cost-benefit study co-funded by the Department of Infrastructure (DOI) and Victoria's electricity distribution and retail businesses.

Starting in 2008, some 2.9 million new "smart" meters will be installed over a four year period in Victoria (approximately 1.2 million in CitiPower and Powercor). These smart meters will allow Victorian consumers to better manage their energy use by providing more detailed information about their consumption and the opportunities available to save money and reduce greenhouse gas emissions.

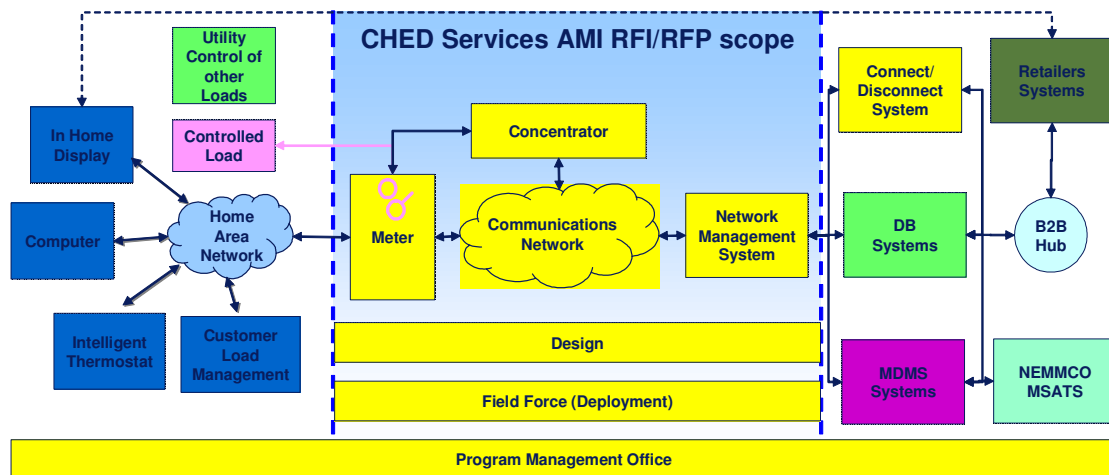
The rollout of AMI for the Business is contingent on the basis that the Victorian Government's derogation application to the Australian Energy Markets Commission is successful and that distributors are granted exclusivity under the National Electricity Rules for the provision of AMI infrastructure until the end of 2013. The derogation is critical as in its absence, provision of AMI services would be a contestable activity under the National Electricity Rules.

The AMI Minimum State-Wide Functionality Specification (Release 1.0) and the Minimum AMI Service Level Specification (Release 1.0) have been prepared by the Department of Primary Industries (DPI). These specifications describe the scope of an AMI installation and effectively what is being mandated to be delivered within Victoria and are scheduled for review in early 2008.

The tight regulatory and government timelines place pressure on ensuring that industry systems are in place for the rollout. This is also highlighted from the uncertainty of the regulatory environment from both a State and National perspective. Coupled with this, the technology is not mature and vendors do not have technology that can currently deliver the minimum functionality and service level requirements as specified by the DPI.

The rollout task for CitiPower and Powercor is also extensive with a franchise territory covering approximately two thirds of Victoria. There is significant diversity in the customer density taking into account rural and decentralised areas where there are relatively small economies of scale.

The following diagram illustrates the scope of an AMI installation in the context of major systems for communicating data between electricity distributors, retailers and the National Electricity Market.



## 4 Scope

### 4.1 Technology and Network Design

The Technology and Network Design workstream is primarily focused on the provision of interval meters and the associated technology required to support the AMI rollout. The technical components that form the basis of the workstream are as follows:

- Interval Meters – Advanced meters monitoring and recording half hourly electricity consumption in real time, notification of power outages and monitoring power quality;
- Meter Communications – Devices including but not limited to collectors, repeaters, concentrators, head end, base stations etc which with the Backhaul Communications provide the two way data channel between a number of meters and the Data Centre; and
- Network Management System – A combination of hardware and software used to monitor and manage the AMI communications network and schedule and issue AMI commands or instructions.

### 4.2 Backhaul Communications

The Backhaul Communications workstream will be deployed using a combination of the following networking scenarios:

- Interval meters in metropolitan or higher density areas may be connected to a local Data Concentrator (DC) via the power wires, mesh radio or wireless communications. The DC's may then be linked to a Wide Area Network (Backhaul Communications) which connects to the CHED Services Data Centre in Melbourne and a separate Disaster Recovery Centre (DRC) in another geographic location; and/or
- Interval meters in lower density or remote areas may be linked directly to the CHED Services Data Centre and a separate DRC in another geographic location.

The communications from the DC's, directly connected interval meters and head ends or base stations back to the CHED Services Data Centre is expected to be carried over existing communications networks.

### 4.3 Field Force Deployment

The Field Force deployment workstream is focused on the deployment of advanced meters, DC's and local communications. The key elements of the services include:

- Installation;
- Planning, workforce and customer scheduling;
- Supply and logistics; and
- Post implementation support.

### 4.4 Areas Not In Scope

There are a number of areas outside the scope of this Procurement Policy whereby the procurement of goods and services will be under Corporate Policies and Procedures. The areas outside the scope of this Policy include:

- Information Technology;
- Programme Management Office; and
- Business Transformation.



## 5 Strategic Direction

The intention of the Procurement Strategy is to ensure that there is an alignment with the context of both the Corporate and AMI Services Business Unit strategic vision and objectives.

### 5.1 Corporate Strategic Vision

To profitably grow our business as a key member of the Cheung Kong Group and Spark Infrastructure such that we are a leading infrastructure and related services business.

### 5.2 Corporate Strategies

There are a number of Corporate Strategies that relate either directly or indirectly to the Procurement Strategy. These include:

- Deliver Financial Targets through the achievement of budgetary targets and maximisation of regulatory outcomes
- Improve Health and Safety by continuously improving systems and processes
- Ensure Compliance with the ESC timeframe for the rollout of AMI meters once appropriate approvals and derogations are in place.
- Optimise workforce to deliver Business outcomes through improved workforce capability and engagement and recruitment
- Improve system and service reliability through improving system performance
- Maximise Business efficiency by transformation of business processes and improved procurement of goods and services
- Optimise network asset efficiency by improving asset performance, optimising technical standards and improved longer term planning of the network
- Accelerate organic unregulated growth and grow regulated revenue by assessment of Business opportunities arising from the AMI model
- Optimise price resets by optimising the value outcome at the reset and the financial and operational platform between price resets
- Improve reputation with stakeholders through delivery of the corporate strategies
- Improve customer satisfaction by enhancing service delivery as a result of better understanding customer needs.

### 5.3 Business Unit Objectives

The AMI Services Business Unit has a number of objectives that support the Corporate strategies. The main objective is the delivery of the AMI programme on time and on budget which forms the basis of the Procurement Strategy.

## 6 Strategic Issues

The major issues that have been identified are:

- Tight regulatory and government timeframe
- Industry systems need to be in place for the rollout
- Rapid pace of technology changes and the need to ensure that the technology selected meets the current and future needs of the Business
- Emerging communications need to be constantly reviewed to ensure meets the current and future needs of the Business – narrowband v broadband
- Evaluation criteria to determine whether technology selected should be based on established providers in the market or by new entrants with emerging technology
- Business may not receive full cost recovery through the price reset and decision to be made on whether to appeal the decision or review the scope of work to be provided
- Key consideration for selection of preferred solution is the ability for the Vendor to have a presence in the Australian market for ongoing support and relationships
- Contracting vehicle for the best outcome for field deployment to be determined
- Technology maturing
- Contractual negotiations may be protracted due to Vendors not accepting terms and conditions
- Meter solution selection needs to be consistent with the pursuing of Business growth opportunities
- Commercial management of risk to be undertaken and passed to the Vendor wherever possible
- Group consideration to be given to national AMI rollouts including ETSA
- Use of proprietary products versus open standards
- Competency standards for field works to be defined for metering

## 7 Strategic Initiatives

Strategic initiatives that need to be undertaken include:

- Ongoing monitoring of timeframes and appropriate lobbying with the Regulator and Government as appropriate
- Contractual terms to have options to extend the contract term if the technology that is selected is appropriate or to terminate the contractual relationship if emerging and new technologies better suit Business needs
- Contractual arrangements to ensure that the Vendor has a presence in the Australian market for ongoing support and relationships
- Selection and evaluation criteria for the technology, backhaul communications and field force deployment workstreams to be determined
- Selection and evaluation criteria to be determined to move from a shortlist of four vendors to one vendor for the field trial for technology then move to the pilot phase
- Appropriate due diligence to be undertaken on both technical and financial performance of the company and products
- Options of Build Operate Transfer (BOT) or Build Own Operate Transfer (BOOT) to be considered
- Market research to be continually undertaken to review new and emerging technologies both in Australia and globally
- Timeline impact of derogation decision to be investigated
- Contract negotiation strategy to be put in place
- Vendors may reprice their solution if the final version of the minimum functionality and service levels varies significantly from current releases of the versions
- Monitor functionality and service level specifications review by AMI Industry Steering Committee and Victorian Government including development of a national smart grid functionality and services specification. Changes to be incorporated into mandatory procurement requirements to Vendors and contract statement of works.
- Contractual terms to ensure that the Vendor delivers to an agreed roadmap and statement of works which includes the functionality specifications
- Vendor comments on standard contracts to be reviewed from initial compliance in the Request for Proposals and Request for Information
- External Legal advisor to be appointed with experience in contract development and negotiations of similar scaled and complex projects and engaged early in the procurement and negotiation strategy phases
- Further investigation to occur with Consultants on legal templates established for the North American Utility market
- Further investigation to determine whether there are other contractors in the US that are able to assist in developing contract terms and conditions in the AMI market
- Field Force contracts to ensure past negotiation experience for resource service providers is taken in consideration where these vendors have been shortlisted and already engaged in providing services to the Business
- Contracting model to be determined by the Business
- Contracting parties to be confirmed
- Contracts being developed to ensure that risk is transferred to the Vendor wherever possible
- Continue to monitor and evaluate development of open standards and protocols

- Involvement and lobbying with Victorian industry for the development of competency standards for field works for metering
- Communications strategy to be developed defining business requirements

## 8 SWOT Analysis

### 8.1 Strengths

Key procurement strengths are as follows:

- Procurement process has been reviewed and quality assured by external consultants and found to be consistent with leading practice
- Procurement policies and process from a Corporate level are being followed

### 8.2 Weaknesses

Key procurement weaknesses are as follows:

- Procurement process is of high magnitude in terms of size, dollars and complexity

### 8.3 Opportunities

Key procurement opportunities are as follows:

- Procurement process can be utilised for any growth opportunities

### 8.4 Threats

Key procurement threats are as follows:

- Other Distribution Businesses may lock in the same Vendor resulting in the Vendor not being able to provide appropriate supply of meters or communications or provide products that are not of an appropriate quality standard

## 9 Programme Timelines and Delivery

### 9.1 Programme Timelines

The CHED Services AMI Project rollout is timed to occur from 2009 to 2013. In accordance with the timeframes specified by the Victorian Government, CHED Services will begin the rollout of its 1.2 million meters in the third quarter of 2009 with all installations completed by 31 December 2013.

The following table details the mandated requirements by the Government:

Meters Installed (%)	Target Date
5% of meters	30 June 2010
10% of meters	31 December 2010
25% of meters	30 June 2011
60% of meters	30 June 2012
95% of meters	30 June 2013
100% of meters	31 December 2013

### 9.2 Procurement Resourcing

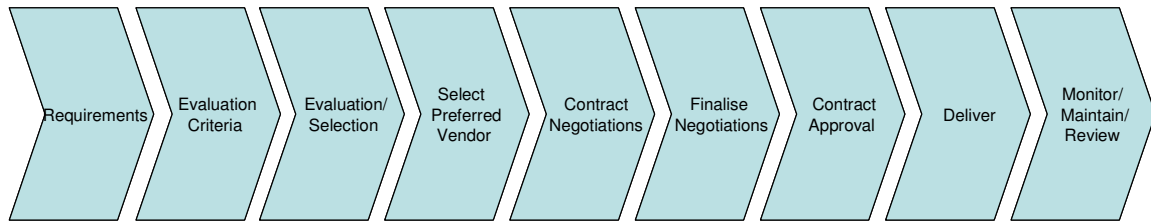
To assist in the delivery of the procurement process, resourcing support will be required from:

- Procurement and Negotiation Team
  - Team to be established and be consistent over contractual negotiations
- Legal
  - External legal assistance to be engaged
  - Contract terms and conditions to be established
  - Legal to review negotiation strategy and process
- Business and External Support
  - Support provided from appropriate Business Units as required
  - Support from external specialists in technology advice
  - Support from external procurement specialists

The levels of support from both internal and external resources need to be quantified.

### 9.3 Procurement Lifecycle

The following diagram depicts the procurement lifecycle which is being followed under the Procurement Strategy. This is consistent with leading practice and good corporate governance.



## 9.4 Procurement Process

The procurement process will include the following:

- Evaluation/selection process
  - Finalise RFP
  - Due diligence
  - Demonstration trials
  - Shortlisting of vendors
  - Approval process
- Commercial negotiations
  - Negotiation Strategy and process
  - Engagement of Legal Advisors
  - Development of detailed statements of work and contract terms and conditions
  - Negotiations with successful Vendors

## 9.5 Customs and Import Duties

CHED Services preference is to support local industry and to provide wherever possible full, fair and reasonable opportunity to Australian suppliers, manufacturers and contractors to tender or quote for the AMI Project. Consequently, CHED Services may give preference to proposals that maximise Australian participation by employing and procuring locally wherever possible.

If after the date of a Contract, any tax, stamp duty and customs duty or like impost or charge is reduced or an exemption becomes available in respect of a product or service or a component thereof, the parties must agree that the supply sum can be varied to reflect the reduction. The Contractor must fully co-operate with CHED Services in determining, facilitating and diligently claiming or obtaining any reduction in taxes, stamp duties, customs duties, charges or like imposts provided that the Contractor may claim from CHED Services its reasonable costs in undertaking such action.

CHED Services or its agent may make applications for customs duty concessions or exemptions relating to any aspect of the products or services to be supplied by the Contractor. The Contractor must provide whatever assistance or information CHED Services reasonably requires to assist it in such applications including completion and execution of any documentation required by the relevant customs authority. The Contractor must provide CHED Services promptly with any correspondence, transaction records or other documentation relating to or need for such applications or arising from the Contractor's obligations.



Where the Contractor of CHED Services is successful in obtaining any customs duty, concessions or exemptions and any refund is available to the Contractor, the Contractor must promptly apply for such refund and upon receipt of such refund, promptly advise CHED Services and remit the proceeds to CHED Services.



## 10 Risks, Issues and Dependencies

### 10.1 Program Risks

The major risks that have been identified are:

- Tight regulatory and government timeframe for rollout;
- Technology and IT systems are maturing;
- Retailers may not be ready for the AMI environment;
- Contractual negotiations with vendors are protracted;
- Technology and communications may not be supported for the life of the assets;
- Technology trial is not successful and new Vendors needs to be selected; and
- Back end systems are not in place for rollout.

### 10.2 Issues

The efficient and effective implementation of the AMI Program will require the following high level issues to be proactively addressed.

- Program resourcing in terms of quality and quantity;
- Finalisation of the Industry program schedule;
- National Market rules changes; and
- Development and testing of efficient processes in a tight timeframe.

### 10.3 Procurement Risks

A number of procurement risks have been identified including:

- Board will not provide approval to move forward until there is more certainty from a regulatory and government perspective and the derogation is in place;
- Premature commitment to single bidder;
- Different use of terminology between parties;
- Multiple lines of communication with Vendors;
- Risks not appropriately management;
- Protracted contract negotiations;
- “Deal Breakers” not defined;
- Resourcing not appropriate;
- Lack of continuity in negotiating team members; and
- Legal advisors not engaged early enough in the process.

## 10.4 Dependencies

The major dependencies that have been identified are:

- Industry programme;
- AMI Business Plan;
- Corporate Procurement Policy and Procedures;
- Functional specifications and service levels;
- AMI Services Business Unit Strategic Plan;
- Information Technology;
- Business Transformation;
- Powercor Network Services for field deployment;
- Metering Strategy;
- Communications Strategy;
- Negotiation Strategy; and
- All other AMI Workstreams.

## 11 Key Assumptions

The following key assumptions have been used:

- Enhanced Retailer and NEMMCO processes associated with the market exchange of meters are in place;
- Minimal adverse customer reaction to AMI Program and deployment;
- Sufficient volumes of meters will be available at the required times to enable acceptance testing, pilot and mass rollout;
- Resources will be available in the market for deployment;
- Communications infrastructure will be deployed prior to mesh meters and the build route will sequence from the access point;
- Meter read routes will be followed when rolling out meters;
- Meters will not be changed out within five days before and three days after the billing cycle date;
- AMI meter changeovers on a route are to be completed within one billing cycle keeping cognisant of the eight day exclusion window;
- Appointments are mandatory for the changeover of life support customers;
- Industry systems are in place for rollout;
- Price Reset has been made based on a efficient and prudent approach with a full pass through of actual costs;
- AMI rollout will be conducted by CHED Services on behalf of CitiPower and Powercor and will be managed as a common program;
- Powercor Network Services will be the rollout service provider for field deployment and will engage subcontractors to assist in the rollout;
- Pilot needs to be 100,000 meters to ensure sufficient scale to demonstrate the robustness of the technology;
- Vendors are able to manufacture the meters to required specifications and meet industry timelines;
- Industry timelines do not adversely change; and
- National initiatives for the rollout of smart metering will not impact the Victorian rollout program.

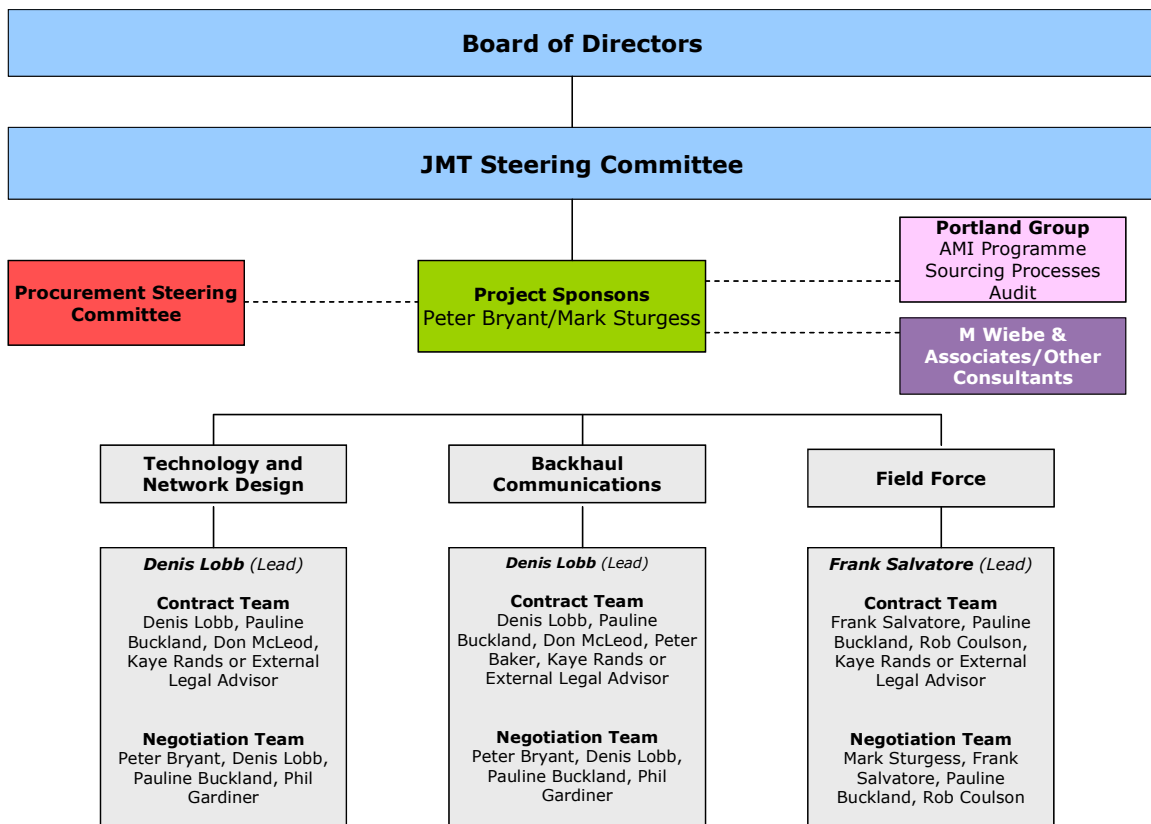
# 12 Governance

## 12.1 Procurement Policy

All procurement undertaken will be in alignment with Corporate Procurement policies and procedures which are subject to internal and external audit and shareholder audits and in line with corporate government leading practice. An agreed formal project management methodology will be used to consistently manage all projects and initiatives that underpin the Procurement Strategy.

## 12.2 Governance Structure

The following is the governance structure under which the procurement operates in relation to the AMI solution:



In addition to the above governance structure, for the Request for Information (RFI) and Request for Proposals (RFP) that were undertaken, Deloitte and Portland Group were involved in the process to ensure that appropriate corporate governance and quality assurance was in place in accordance with leading practice.

## 13 Revisions

Version	Date	Updated By	Comments
0.1	11 January 2008	Pauline Buckland	First draft for review
0.2	31 January 2008	Pauline Buckland	Feedback from AMI Management Team
0.3	12 February 2008	Pauline Buckland	Feedback from AMI Procurement Strategy Meeting
1.0	29 February 2008	Pauline Buckland	Feedback from AMI Management Team
1.1	10 March 2009	Pauline Buckland	Updated to include duty minimisation
1.2	6 May 2009	Pauline Buckland	Updated in line with the Risk Management Strategy

## 14 Glossary

The following are the definitions, acronyms and abbreviations used in this document.

Term	Definition / Meaning
AMI	Advanced Metering Infrastructure – The industry term for the programme describing the installation of Advanced Meters.
BOT	Build Operate Transfer
BOOT	Build Own Operate Transfer
CHED Services	CKI/HEI Electricity Distribution (Services) Pty Ltd
CitiPower	CitiPower Pty
DC	Data Concentrator
DOI	Department of Infrastructure – the department of the Victorian State Government promoting the use of Advanced Metering
DPI	Department of Primary Industries
DRC	Disaster Recovery Centre
ESC	Essential Services Commission
Powercor	Powercor Australia Ltd

# ATTACHMENT 1 – HIGH LEVEL STRATEGY TIMELINE

## PROGRAMME IMPLEMENTATION STRATEGY

