

Attachment 5: Governance arrangements



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1. Purpose and key messages

This Attachment forms part of Transgrid's application to reopen the 2023-2028 Revenue Determination in accordance with clause 6A.7.1 of the NER (**Application**).

The purpose of this Attachment is to elaborate on the governance structure described in section 2.3.2 of the Main Application. This Attachment explains the development of Transgrid's governance arrangements as it transitioned from delivering 'business as usual' capital expenditure projects, as operator and maintainer of the transmission network, to managing the delivery of several multi-billion dollar projects required to facilitate the energy transition. These governance arrangements also evolved in response to the specific challenges and changing circumstances associated with the delivery of PEC, with the objective of delivering the best outcome for consumers.

Key messages

- With the introduction of PEC, which has a significantly higher project value and risk profile than any projects recently undertaken on transmission networks in Australia, Transgrid progressively developed its governance arrangements to respond to the specific needs of managing this critical major project.
- Transgrid's Board has been involved in PEC from the procurement of Secure Energy Joint Venture (**SEJV**), through to the negotiation and establishment of the ICC contract with Elecnor Australia. In particular, the Transgrid Board was consulted frequently during the analysis of options for rectification of the Contract Failure to ensure the most prudent and efficient option was selected.
- Following Clough Limited's insolvency, a review of Transgrid's governance structure for the Major Projects division was undertaken, which resulted in a new structure which was in place at the time of the execution of the ICC contract with Elecnor Australia.

2. Project Governance

2.1 Introduction

Since the commencement of PEC in 2019, Transgrid's governance structure has evolved to respond to the specific needs of managing multiple major projects critical to the energy transition.

Prior to PEC, Transgrid's role was focussed on being the operator and maintainer of the largest electricity transmission network in Australia. Given the smaller scale and lower risk of the investments prior to PEC, governance followed Transgrid's 'Prescribed Network Capital Investment Process' with decisions made in accordance with the financial delegations provided by the Transgrid Board to Management. Significant decisions, such as the approval of the annual budget or submission of a Contingent Project Application (**CPA**), remained with the Transgrid Board.

However, with the introduction of PEC, which has a significantly higher project value and risk profile than any projects previously undertaken by Transgrid, Transgrid progressively developed its governance arrangements, and subsequently established a Major Projects Division, as PEC transitioned through the project stages of procurement and early site delivery. The sections below describe the development of the governance structure through the different phases of the project.

2.2 Project establishment and procurement

As PEC is the largest transmission project in Australia, Transgrid recognised the need to engage an external Project Director with major project experience to manage the procurement and delivery of PEC. Transgrid also engaged external advisors MBB Group to act as transaction and procurement experts to provide advice in relation to Transgrid's procurement strategy and execution.

A key element of the procurement process to select a principal contractor to deliver PEC was the establishment of the Evaluation Review Team (**ERT**), which comprised industry experts and specialists. At each stage of the process, the ERT considered submissions from tenderers and captured their findings in the ERT Report. The review team provided the ERT Report to the Tender Evaluation Panel, who assessed it and made a recommendation to the Transgrid Board for endorsement. The Tender Evaluation Panel consisted of members of Transgrid's Executive Team, the Project Director and an independent member with expertise in major projects. As explained in further detail in section 4 of Attachment 2, the procurement process culminated in the appointment of SEJV¹ to deliver PEC.

In addition to the Board approving the decision to engage SEJV, during the early phases of the project the Board considered and addressed numerous matters associated with PEC, which included exercising options to extend the validity of the contract price whilst funding arrangements were concluded. The Board's engagement during subsequent stages of the project is described below.

¹ SEJV refers to Secure Energy Joint Venture, which was an unincorporated joint venture made up of Clough Limited and Elecnor Australia (formerly Green Light Contractors Pty Ltd). The relationship between these entities is described in section 3 of Attachment 2.

2.3 Pre-Clough insolvency governance arrangements

A key feature of an EPC contract is that the contractor is responsible for project delivery and the project owner (in this case Transgrid) relinquishes day-to-day control and direction and has limited intervention capabilities. In the case of PEC, the engineering, procurement, construction and commissioning was the role of SEJV.

Throughout this period, the project team prepared monthly reports, which were presented to the Executive Manager Major Projects. The key topics of the report were project progress, with key issues or concerns highlighted for action. The report was then consolidated into a Board pack by the Strategy, Innovation and Technology Division for review by the Transgrid Board and discussion at the next Board meeting.

In addition to normal progress reporting, the Transgrid Board remained active on PEC as the financeability of the project was not resolved until late 2021, at which point the Transgrid Board was required to approve the upgrade of the transmission line between Dinawan and Wagga Wagga from 330kV to 500kV to support VNI-West and the Southeast Renewable Energy Zone.

As PEC progressed through early and mid-2022, Management updated the Transgrid Board on the progress on PEC via the Group Performance Reports. However, as it became apparent that there was a risk of Clough going into administration and/or insolvency, the Transgrid Board became actively involved in the steps Management were taking to prepare for the potential insolvency, such as securing the personnel and equipment required to deliver the project. Attachment 2 provides further details on the steps Transgrid took in response to the potential insolvency of Clough Limited and its subsidiaries, such as approving a power of attorney that would allow senior officers of Transgrid to call on the bank guarantees provided by Clough under the EPC contract.

2.4 Post-Clough insolvency governance arrangements

Following an independent review (undertaken in 2022) of the governance structure for Transgrid's Major Projects Division, a revised governance structure was established. This structure utilised existing forums, such as the Investment Review Committee and introduced new forums, such as the Major Projects Oversight Group. This structure was implemented progressively and established in 2023 but has since been updated as described below.

The governance structure has two streams:

- **Major Projects governance stream**, which is a project reporting and review group, specific to each major project.
- **Transgrid Group governance stream**, which is a decision-making 'umbrella' group which covers all business within the Transgrid Group and reports to the Transgrid Board.

Each of these governance streams are explained in further detail below.

The Major Projects governance stream consists of:

- The Project Control Group (**PCG**) which reviews all aspects of the project with the project team, reporting to the Project Director on the performance of their respective functions. All parts of the project, including support functions (such as Health, Safety & Environment; Finance; Stakeholder & Community and Legal) attend this meeting.

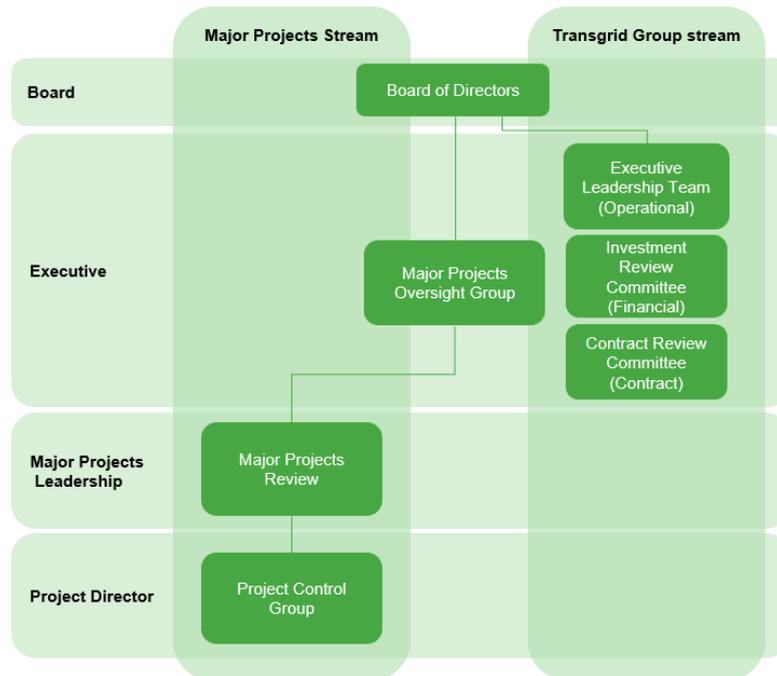
- The Monthly Major Projects Review (**MMPR**) which reviews emerging risks, approaching decision points, issues for escalation, major impacts on cost, time and quality, change control and discusses endorsement of Major Project Oversight Group (**MPOG**) papers and reports. The purpose of the MMPR is to promote robust debate, seek peer input and facilitate considered decision making within the sphere of Major Projects. Attendees of this meeting are the direct reports to the Executive General Manager (**EGM**) of Major Projects.
- The Major Projects Oversight Group (**MPOG**) which is an executive committee, with three external independent expert members, established to support the Transgrid Board and Management with their oversight and strategy roles. The MPOG provides both executive and external independent oversight, as well as assurance of successful and safe delivery of the full life cycle of Transgrid Group Class A Major Projects (being projects above \$500 million, with high complexity and high corporate risk rating, such as PEC).

The Transgrid Group governance stream includes:

- The Contracts Review Committee (**CRC**) which assures that contracts, and contracting strategies are assessed, compliant, and aligned with Transgrid's strategic objectives, are within risk appetite, achieve business case targets (including targets relating to safety, stakeholders, budget and scope), are demonstrably competitive and achievable and have been appropriately risk-assessed. The CRC ensures that contracts and variations to contracts that trigger the threshold for review by the CRC are thoroughly assessed, determined as compliant, and aligned with the company's strategic objectives.
- The Investment Review Committee (**IRC**) which is an executive committee established by the Chief Financial Officer (**CFO**). The primary function of the Committee is to support the Chief Executive Officer (**CEO**) in exercising their delegated authority, as established from time to time by the Board, and making recommendations to the Board in respect of investment activity within the Transgrid Group.
- The Executive Leadership Team (**ELT**) which is established by the CEO and oversees the operational performance of the Transgrid Group, including oversight of Major Projects.

The two streams provide reporting through to the Board, including briefing the Board on critical updates and where Board decisions are required, as shown in Figure 1 below.

Figure 1: Transgrid governance structure for PEC



Transgrid regards its project governance structure as best practice and appropriate for supporting a major infrastructure project such as PEC.

2.5 Engagement with the Transgrid Board on the ICC contract

The Transgrid Board were actively involved in the decision-making and analysis leading up to Contract Failure on 25 October 2023 and through to the execution of the ICC contract in December 2024. Management consulted directly with and sought approvals from the Transgrid Board throughout this period.

The Transgrid Board’s engagement in relation to PEC included, for example:

- the decision to maintain project continuity through the Advance Payment Deed (**APD**)
- the decision to conduct a competitive tender for alternative contractors as an alternative to establishing new contractual arrangements with Elecnor Australia
- the decision to progress negotiations with Elecnor Australia, including the preference for a fixed price
- the options analysis, including the net market benefit analysis, which identified the ICC contract as the best outcome for consumers, and
- the decision to execute the ICC contract with Elecnor Australia.

Transgrid regards the Board’s engagement as appropriate in the circumstances and provides additional assurance that the outcome is prudent and efficient.

Further information on the options analysis is provided in Attachment 3, and detail on the negotiation of the terms and conditions in the ICC contract can be found in Attachment 4.