



Supporting
document 5.2

Expenditure Governance Procedures

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Expenditure Governance Procedures

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SA Power Networks

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EXPENDITURE GOVERNANCE PROCEDURES

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EXPENDITURE GOVERNANCE PROCEDURES

This document describes the robust planning and governance processes employed by SA Power Networks in its business planning and annual budget cycles. It should be read in conjunction with SA Power Network's policies and directives, in particular the following:

- Board Governance Policy
- Financial Management Policy
- Asset Management Policy
- Risk Management Policy
- Compliance Policy
- Environmental Policy

1. Corporate Governance Commitment

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

2. Governance Policy and Framework

The Board is responsible for the overall corporate governance of SA Power Networks. The Board is to act in the best interests of SA Power Networks and the shareholders. The four key objectives of the Board are to:

- set strategy (through a strategic Business Plan);
- establish a set of control systems to ensure strategy is achieved (through Policy setting and Delegations of Authority);
- monitor performance (through a monthly performance report); and
- liaise with stakeholders (through external reporting).

To enable best practice corporate governance, the Board has approved a Board Governance Policy, and a Corporate Governance Model. The Board Governance Policy and Corporate Governance Model outline the manner in which the Board is pursuing the highest standards of corporate governance across SA Power Networks.

The key elements of corporate governance that will apply to SA Power Networks as defined by the Corporate Governance Model are:

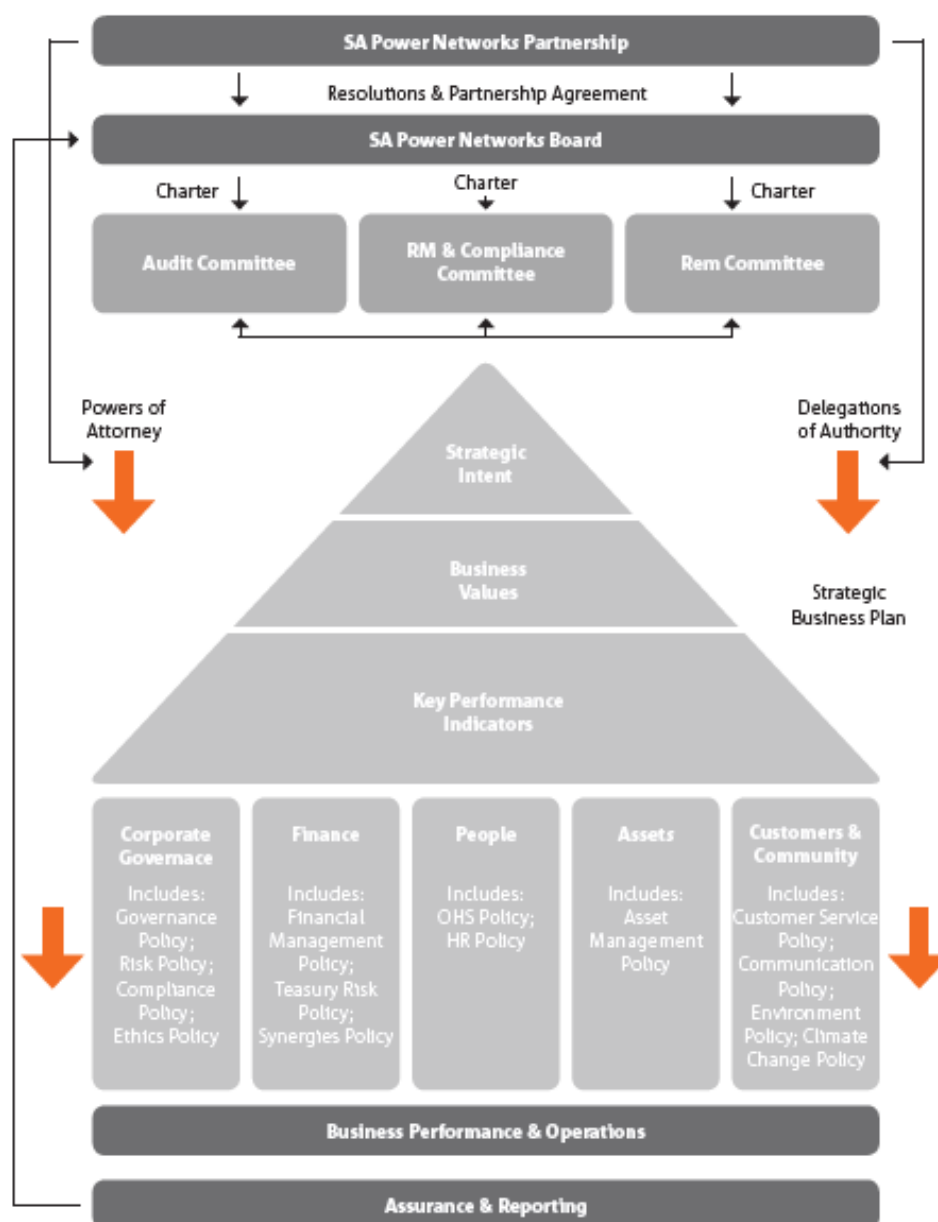
- SA Power Networks Partnership – the business itself is the Partnership;
- Partnership Agreement – the instrument of delegation that sets the primary requirements for corporate governance on behalf of the Partnership;
- SA Power Networks' Board – the body representing the Partners which is responsible for the conduct of the SA Power Networks business and strategic direction;
- Board Sub-Committees – bodies established under the Partnership Agreement to assist the Board;

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- Business Plan – what SA Power Networks is aiming to achieve;
- Policies and Procedures – the intended manner by which SA Power Networks will achieve the Business Plan;
- Delegations of Authority – authorities delegated by the Board to SA Power Networks officers to enable day to day conduct of the business;
- Performance Management – the process of monitoring by the Board to ensure the Business Plan is achieved; and
- Assurance – providing assurance to the Board that SA Power Networks is achieving its objectives, as per the Plan, in the manner intended.

SA Power Networks' Corporate Governance Model is shown in Figure 2-1 below.

Figure 2-1: SA Power Networks' Corporate Governance Model



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The model provides for a hierarchy of the requirements governing expenditures:

- Business Plan – sets the strategic direction of SA Power Networks and details the Statement of Strategic Intent, the business values and the key performance indicators.
- Policies – Board-approved mandate, statement of intent or Board-approved principles for the prudent conduct of the business.
- Directives – approved by the Chief Executive Officer for specification of obligatory uniformity of practice.
- Procedures – approved by management to prescribe an agreed method of achieving a desired result.
- Instruction – a directed method of achieving a desired outcome.
- Guideline – a suggested method of achieving a desired outcome.

3. Business Planning

3.1 Enterprise Business Planning

The annual planning cycle is incorporated into the strategic planning process and commences with the Executive Management Group (**EMG**) establishing strategies and targets.

The strategic planning process represents a significant tool in the establishment of a future framework for the business. A key component of the strategic planning process is the development of the Strategic Plan, for which the Board requires an approved 5-year financial plan, to ensure progress is made towards maximising overall shareholder value and achieving long-term goals.

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

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

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

3.2 Departmental Business Planning

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

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4. Portfolio Management

4.1 Corporate Portfolio Management

The Corporate Portfolio Management Office (**CPMO**) governs and manages the Portfolio of business improvement, IT programs and projects for SA Power Networks. The CPMO provides mechanisms that enable SA Power Networks to effectively and efficiently deliver business improvement, IT programs and projects in a way that is fully aligned with the organisation's strategic goals and objectives.

Working in partnership across SA Power Networks, the CPMO applies Portfolio Management and Project Management processes to achieve the right projects, in the right way, for the right value.

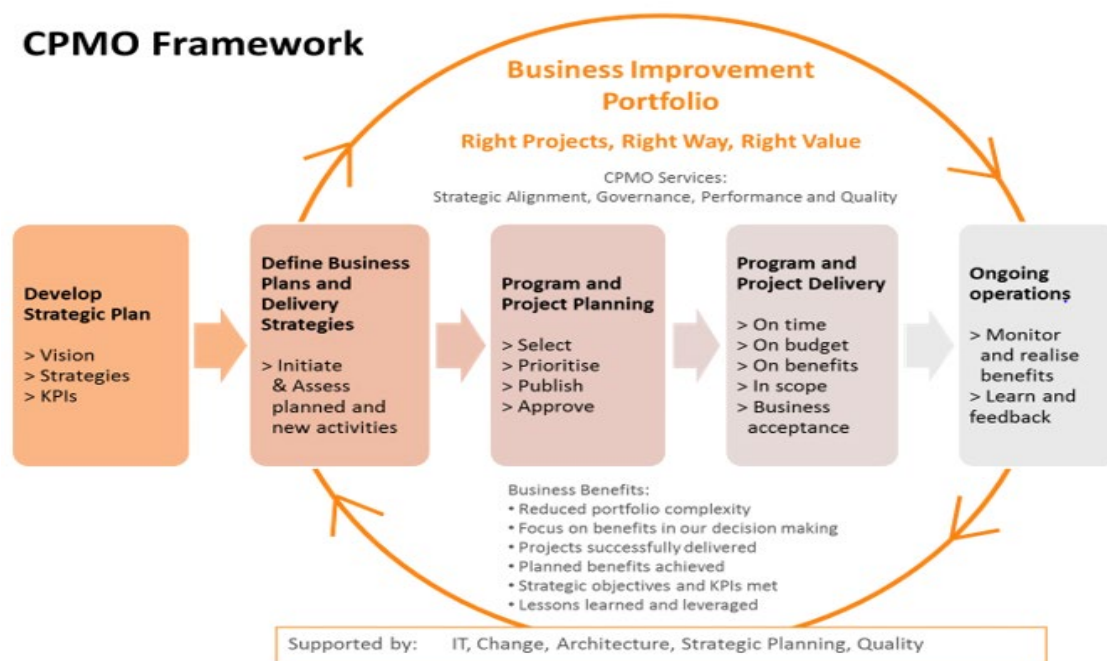
The ultimate aim is to provide the organisation with consistent and repeatable portfolio, program and project management capabilities that will lower the overall risk profile, increase the overall value realised and decrease the time it takes business improvement and IT projects to deliver that planned value.

4.2 Portfolio Framework

The portfolio framework shown in Figure 4-1 below illustrates the end-to-end view of delivering strategically aligned business improvement projects across SA Power Networks in a consistent way. It highlights the required processes, services, governance and management responsibilities.

This framework establishes a single way of governing and facilitating the delivery of projects and is designed from "good practice" for scalability but with a sensible practical, pragmatic balance between delivery and process.

Figure 4-1: CPMO Framework



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5. Capital Expenditure Governance

5.1 Capital Expenditure Cycle

The capital expenditure process can be broken down into discrete stages, with each stage the subject of a separate documented procedure:

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

Distribution projects are overseen by the Regulated Works Program (**RWP**) Governance Framework. This provides a hierarchy of responsibility for the management of the capital expenditure cycle in conjunction with the CPMO. The RWP Governance Framework is demonstrated in Figure 5-1 below:

Figure 5-1: Regulated Works Program (RWP) Governance Framework

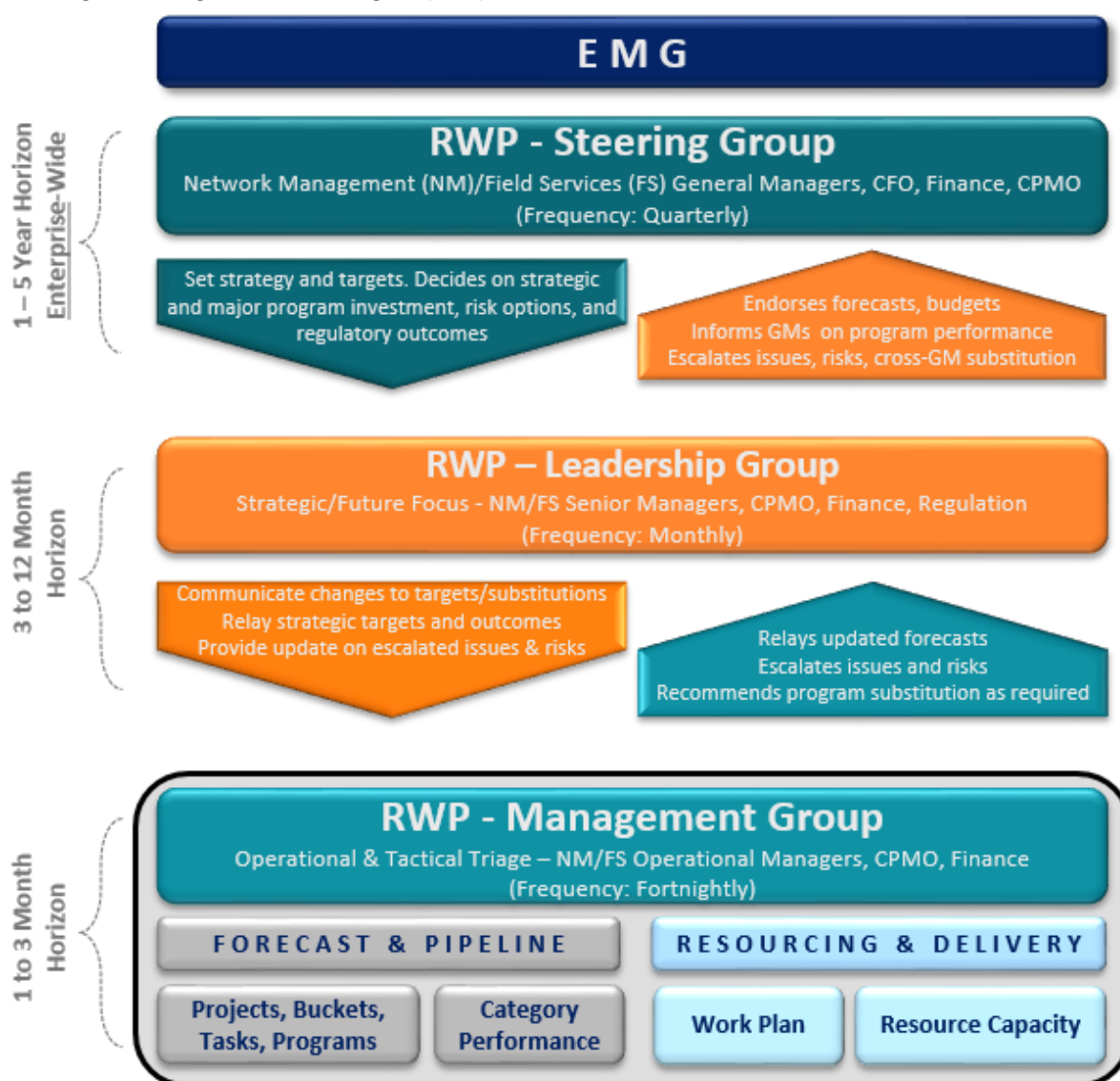


Table 5-1 overleaf summarises SA Power Networks' capital expenditure cycle.

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Table 5-1: Capital Expenditure Cycle Overview

Capital Expenditure Cycle					
Description	Business Planning	Capital Budget	EMG	Project Authority Approval	Expenditure Monitoring
Business Planning					
EMG reviews and assesses performance against stated objectives.					
Goals and strategies refreshed, and broad targets established for forthcoming five-year planning period, including budget year.					
Capital Budget Process - Departmental					
Corporate Finance group determines & advises initial budget targets by department.					
Departments advise of committed prior year capex deferred to next budget year.					
Departments prepare initial project costings for budget.					
Departments undertake Risk Assessment & Ranking of individual projects.					
Departments provide EMG with budget program. Distribution projects are endorsed by RWP Steering Group.					
Capital Budget Process - Budget Approval					
EMG reviews departmental budget programs.					
EMG endorses a final capital programme.					
Budget submitted to the Board for approval.					
Project Authority Approval					
Individual projects approved by Project Authority (PA) in accordance with delegations of authority.					
Risk Assessment and Financial Evaluation					
Unbudgeted projects above \$100,000 require a detailed risk assessment and may require a financial evaluation where there are competing options for a given objective.					
Expenditure Monitoring					
Actual and forecast project expenditure monitored against approved PA.					
Project Revisions					
Over expenditure will require PA revision.					
Project Close-out and Other					
Projects must be closed out in a timely manner, as well as ensuring WIP and inactive SAP project codes are regularly monitored					
Post Implementation Review (PIR)					
PIRs are required for all projects that exceed \$500,000, or are significantly varied from budget, or at General Manager discretion.					

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5.2 Regulated Works Capital Budget Process

5.2.1 Development of Departmental Budgets

Annual departmental budgets are developed for submission to the RWP Steering Group through the identification of projects that are individually costed and ranked in order of risk (the following section outlines the ranking methodology).

In their submission to RWP Steering Group, departments are required to identify projects, to which commitment has been made within previous budgets, but which are yet to be completed.

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

5.2.2 Risk Assessment and Ranking Methodology

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

5.2.2.1 Expenditure categories

Mandatory expenditure

Certain SCS expenditures are Mandatory, as they are required by legislation or a regulatory requirement or are driven by externally determined factors. Examples of expenditure categorised as “Mandatory” are:

- Customer driven projects, such as customer connections, and underground residential distribution (**URD**) and underground industrial distribution (**UID**);
- Electricity Transmission Code (**ETC**) driven projects;
- Emergency supply restoration;
- Power Line Environment Committee (**PLEC**) projects, up to the legislated required annual expenditures;
- Fleet vehicle refurbishment, according to legislative requirements; and
- Carryover projects from the previous year.

There may be discretion in the timing and amount of expenditure which is incurred, amounts that are classified as mandatory are expected to be spent in the budget year.

Due to the nature of Mandatory expenditure, it is not subjected to a risk assessment. Option analysis will apply to Mandatory projects to identify the most prudent and cost-effective solution.

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Priority Projects

Risk assessments are undertaken to evaluate the risks of not undertaking a project. Projects that are assessed as extreme or high risk are categorised as “*Priority*” projects.

Discretionary Projects

Regulated projects with risk ratings lower than extreme or high are classified as “*Discretionary*”. Discretionary projects are ranked primarily according to their risk rating bands.

Risk rating bands provide for coarse ranking, ie between bands. Finer ranking requires ranking within a band.

Ranking near the Budget Cut-off

Priority and Discretionary projects do not need to be ranked within a risk band, except for Discretionary projects where the budget cut-off falls within a band.

Projects will be included in the budget, in order of their ranking, up to the level of the allowed budget totals.

5.2.2.2 Risk Assessment

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

Likelihood

This is expressed in terms of probability ranges (%) and indicative frequencies of events, as shown in Table 5-2.

Table 5-2: Qualitative measures of likelihood

Rating	Likelihood	Perception	Probability	Frequency
5	Almost Certain	Is expected to occur	96 – 100%	At least one event per year
4	Likely	It will probably occur	81 – 95 %	One event per year on average
3	Possible	May occur	21 – 80%	One event per 2 – 10 years
2	Unlikely	Not likely to occur	6 – 20%	One event per 11 – 50 years
1	Rare	Most unlikely to occur	0 – 5%	One event per 51 – 100 years

Consequence

This is the impact or repercussion(s) from an adverse event. Consequences may be widespread in their nature and are assessed for each of seven risk domains (ie financial, safety, environmental, reputation/customer service, legislative and regulatory, organisational and reliability). Qualitative measures of consequence are shown in Table 5-3 below.

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Table 5-3: Qualitative measures of consequence

Rating	Minimal 1	Minor 2	Moderate 3	Major 4	Catastrophic 5
Financial	Less than \$100,000	\$100,000 or more, but less than \$1m	\$1m or more, but less than \$10m	\$10m or more, but less than \$100m	\$100m or more
OH&S	Incident but no injury	Medical treatment only	Lost time injury	Death or Permanent Disability	Multiple Fatalities
Environment	Negligible damage that is contained on-site.	Minimal damage to the environment and small clean-up. Immediately contained on site.	Moderate damage to the environment and significant clean-up cost.	Significant environmental damage with wide spread impacts. Damage may be permanent.	Long term environmental harm. Permanent irreparable damage
Reputation / Customer Service	Localised customer complaints	Widespread customer complaints or Complaints to Ombudsman or Regulator	Intervention by the Ombudsman or Regulator	Repeated intervention by the Ombudsman or Regulator	Loss of Distribution Licence
	Adverse regional media coverage	Adverse State media coverage	Adverse media campaigns by customers, media, industry groups	Severe negative impact on both regulated and un-regulated businesses	Loss of Distribution Licence
Legislative and Regulatory	Minor breaches by employees resulting in customer complaints or publicity	Act or Code infringements resulting in minor fines	Severe Company or Officer fines for Act or Code Breaches	Prison sentences for Directors or Officers	Loss of Distribution Licence
	ACCC require apology and / or corrective advertising	ACCC require special offer be made to all customers / suppliers	ACCC minimum level penalties	ACCC moderate level penalties	ACCC maximum level penalties
	Directors / Officers given minimum fines	Directors / Officers given moderate fines	Directors / Officers given severe fines	Directors / Officers given prison sentences	Loss of Distribution Licence
Organisational	Absorbed without additional management activity	Absorbed with minimal management activity	Significant event which requires specific management	Critical event which can be endured with targeted input	Disaster which can cause collapse of the business
Reliability	2000 customers without supply for a min. of 12 hours (ie. a medium size urban feeder)	10,000 customers without supply for a min. of 24 hours (ie. a major storm related outage or a major substation outage)	Up to 40,000 customers without supply for a min. of 48 hours (ie. major multiple zone substation coincident outages)	Over 40,000 customers without supply for longer than 48 hours (ie. major geographical areas off supply)	Adelaide CBD without supply for longer than 24 hours

Budget year

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

Level of risk matrix

The risk assessment evaluates scores for likelihood and consequence against the risk matrix, for each of the seven risk domains to establish a level of risk, as shown in Table 5-4.

Table 5-4: Level of risk matrix

Risk Matrix		Consequence				
Likelihood		Minimal 1	Minor 2	Moderate 3	Major 4	Catastrophic 5
Almost Certain	5	Medium 6	High 7	High 8	Extreme 9	Extreme 10
Likely	4	Low 5	Medium 6	High 7	High 8	Extreme 9
Possible	3	Low 4	Low 5	Medium 6	High 7	High 8
Unlikely	2	Negligible 3	Low 4	Low 5	Medium 6	High 7
Rare	1	Negligible 2	Negligible 3	Low 4	Low 5	Medium 6

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

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

5.2.2.3 Network Risk Assessment

The Network Management Department has further developed its risk ranking system for non-Mandatory projects, based on the corporate methodology, to quantify the financial consequence of each project and allocate risk scores based on the corporate risk system's financial consequence values.

Each project's risk is assessed both pre and post proposed implementation to arrive at a risk score based on a "do nothing" scenario, as well as assessing the residual risk on completion of the project. This also provides a method for measuring the overall level of risk reduction due to the proposed implementation.

In order to remove as much subjectivity as possible from the risk assessment process, likelihood and consequence scores are automatically assigned based on responses to a series of questions posed to responsible Network Management personnel. This also ensures consistency across different assessors.

System administrators can manually override the assigned likelihood value. This will normally only be performed where the history of a specific asset model is known to be more unreliable than the general asset population or where specific asset condition monitoring has indicated a higher likelihood of failure. Where this is the case, this will be noted against the project's risk assessment.

Only network projects with an overall risk ranking of 6 or more (ie medium or greater risk level) are considered in the budget process.

The methodology employed by the Network Management Department considers risks attributable across three categories, namely:

- safety;
- environment; and
- reliability.

Assessors submit risk assessments for all three categories, with the final risk scores being the highest value of all three categories unless the assessor provides appropriate justification.

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5.2.3 Unit Cost Methodology

Costs assigned to each project for budget consideration are determined using a set of standard components or “unit” costs expressed in a nominal dollar terms. Project costs are derived using a standard estimating tool and standard construction components. Project estimates are based on high level scopes for budget consideration and are further refined for detailed scopes at the project approval stage.

Unit costs are reviewed and updated periodically, based on historic project information, current activity, material and service rates, and/or quotes received from suppliers or service providers. They represent all possible costs likely to be incurred in undertaking a specific project, including non field-based activities such as design and third party services.

Options assessments are undertaken for augmentation projects to determine the lowest cost feasible solution using present value analysis. Projects greater than \$6 million (from 1 January 2019) are subject to the Regulatory Investment Test – Distribution (**RIT-D**), to identify the credible option that satisfies the test and maximises benefits to customers.

5.2.4 RWP Steering Group Capital Budget Assessment and Endorsement

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

The RWP Steering Group may consider strategic objectives in assessing discretionary projects for inclusion in the capital budget. Strategic objective considerations may include:

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

The preliminary lists of projects accepted by the RWP Steering Group for the budget are distributed back to General Managers, who have the opportunity to review the list and request amendments.

The RWP Steering Group reviews any requested amendments and prepares a final capital budget and project list for submission to the EMG for endorsement and then to the Board for approval.

5.2.5 Capital Budget Approval

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

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5.3 Capital Evaluation and Approval Procedures

5.3.1 Project Approval

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

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

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

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

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

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

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

5.3.2 Valuing and Visibility

Building on our network risk forecasting methodologies discussed in Network Risk Assessment in section 5.2.2.3 above, when delivering work for small to medium size jobs, we determine an 'actionable' work value to help us make day-to-day decisions. Work value is the measure of the benefit of undertaking work on the asset. It is the combination of how much risk we reduce and other benefits from undertaking the work. This work value is used to ensure effective investment decisions on smaller projects where a detailed cost benefit analysis is not warranted.

Asset risks are mitigated by understanding the impact of asset failures on delivery of services to customers and using good asset management practices during the life cycle of an asset.

Valuing and Visibility (V&V) is the operational tool being used on line assets and being implemented on substation assets, to assess the level of risk present in the network arising from identified defects and other required works for small and medium repeatable jobs.

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V&V does this by:

- having an agreed comparison of work value: the sum of the reduction in risk and the benefits being gained by undertaking work whether it be capital or operating expenditure;
- making work visible to everyone: enables works in close geographic proximity to be visible for improved planning; and
- enabling bundling: grouping together other less urgent (secondary) work to augment the primary task ('anchor jobs').

The V&V process provides an additional level of defect scrutiny to allow identified work to be valued for prudence (confirms work is required) and efficiency (prioritise the work that provides the greatest reduction in risk for the investment). The required maintenance or renewal/replacement work is prioritised based on the greatest return on investment (e.g. priority given to low cost; high value work).

5.4 Capital Monitoring and Completion

5.4.1 Capital Expenditure Monitoring

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

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

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

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

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

Additionally, CPMO:

- manage a single portfolio reporting framework that tracks performance through a portfolio KPI dashboard (reported monthly);
- perform stage-gate reviews and health checks of in-flight projects and programs; and
- advise on emerging portfolio trends in relation to costs and performance, risks and issues, resource capability and business impact.

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5.4.2 Capital Expenditure Completion

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

Post Implementation Reviews (**PIRs**) are undertaken for completed capital projects, according to the PIR threshold. PIRs are raised for all projects that exceed \$500,000. PIRs are required at the direction of the relevant General Manager for projects less than \$500,000, or if the project has significantly varied from budget, either in terms of time or cost.

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

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

The PIR Report is a comprehensive report documenting the review of project delivery including:

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

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

PIRs are reviewed and approved quarterly by the RWP Steering Group.

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6. Operating Expenditure Governance

6.1 Operating Budget Process

Operating expenditure is governed by setting expenditure targets through the annual business planning and budget process (refer section 3 above), and the monitoring and reporting of expenditures against targets throughout the year.

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

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

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

6.2 Operating Monitoring

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

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

Consolidated reports are provided to the RWP Steering Group, EMG and Board, including explanation of significant budget variations and forecast revisions.

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

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Shortened Forms

CPMO	<i>Corporate Portfolio Management Office</i>
EMG	<i>Executive Management Group</i>
ETC	<i>Electricity Transmission Code</i>
PA	<i>Project Authority</i>
PIR	<i>Post Implementation Review</i>
PLEC	<i>Power Line Environment Committee</i>
RIT-D	<i>Regulatory Information Test - Distribution</i>
RWP	<i>Regulated Works Program</i>
UID	<i>Underground Industrial Development</i>
URD	<i>Underground Residential Development</i>
V&V	<i>Valuing and Visibility</i>
WIP	<i>Work-in-Progress</i>