

5.05

Investment Governance Framework

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1 NETWORK INVESTMENT GOVERNANCE FRAMEWORK

This document outlines Ausgrid's Investment Decision Making process. This includes the controls that Ausgrid has in place to assess, prioritise and approve investment (capex) decisions. The investment decision making processes within Ausgrid provide the management control measures to ensure that investment in the network is subject to appropriate oversight and approval.

1.1 Overview

Ausgrid has a well-established approach to the governance and approval of capital investment that is aligned to its system planning, budgeting and regulatory approvals. Ausgrid's Investment Governance Framework (IGF), which is described by Ausgrid's Investment Governance Framework Policy¹, supports investment decision making which is:

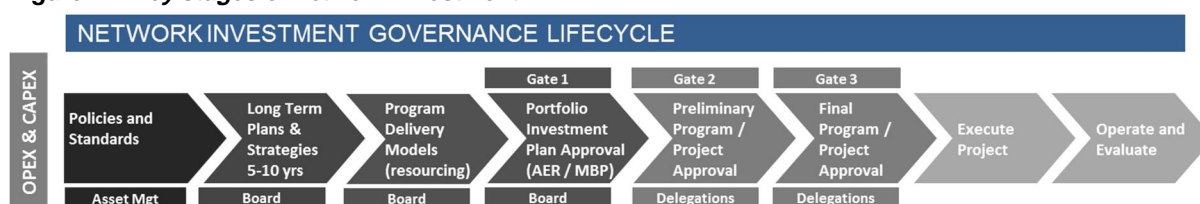
- Streamlined – decision pathway flows are clear and efficient
- Consistent – assessment of needs, outcomes and risks are aligned
- Relevant – appropriate information, both level and content, is submitted to the necessary forum to enable informed decisions.

The objective of the IGF is to provide clear guidance and accountability in respect of the development, determination and approval of investments. The framework provides the basis for making investment decisions in a transparent manner by taking into account a full life cycle approach to provide assurance that the resulting decisions are efficient, consistent and informed.

Ausgrid's Network investment governance process involves three investment decision approval "gates" (illustrated in Figure 1):

- Gate 1: Portfolio Investment Plan Approval (AER/ MBP)
- Gate 2: Preliminary Program/ Project Approval
- Gate 3: Final Program/ Project Approval.

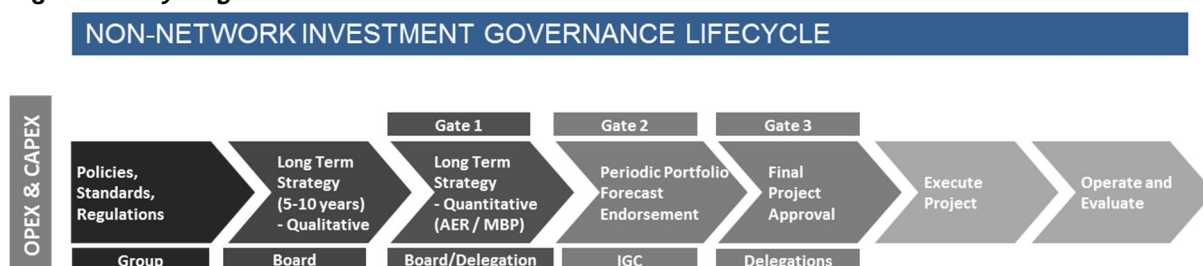
Figure 1. Key stages of network investment



Ausgrid's non-system investment governance process involves a similar process with three investment decision approval "gates" and associated approvals (illustrated in Figure 2). Endorsement and approvals are set in accordance with the scale and nature of non-network investments.

¹ [Company Policy - Investment Governance Framework](#)

Figure 2. Key stages of non-network investment



1.2 Governance arrangements

Each network / system program or project is reviewed, endorsed and approved in accordance with the following procedures:

- [Company Procedure \(Governance\) – Network Investment Governance](#)
- [Company Procedure \(Finance Management\) – Investment Evaluation](#).

Ausgrid's Company Procedure - Network Investment Governance outlines the:

- Stages and steps to complete an investment request ;
- Endorsements required for an investment request; and
- Delegations required to action an investment request.

In particular, Annexure A of the Network Investment Governance procedure provides a risk allocation (RASCI) matrix outlining accountabilities and responsibilities at each stage of the investment governance process.

Approval requirements vary at each decision gate depends on the capital expenditure of the project. Ausgrid's [Company Procedure - Network Investment Governance Decision Pathways](#) was developed to reflect these changes and summarises the relevant approval requirements and CAPEX thresholds. Three key governance bodies have historically been in place within Ausgrid to review and endorse investment decisions prior to approval as follows:

- Investment Evaluation Unit (IEU)
- Network Steering Committee (NSC)
- Investment Governance Committee (IGC).

The Board is responsible for approval at the Network Portfolio level (Gate 1 approval). Approval requirements for Gate 2 and Gate 3 depend on the estimated project investment level, as summarised below:

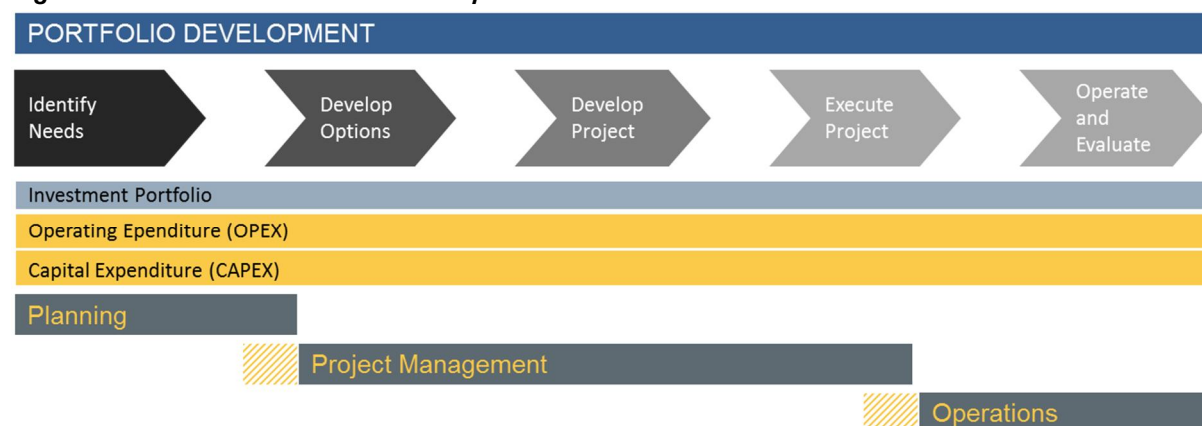
- **Investment valued at >AUD15 million:** The Board is responsible for the approval for a project to pass Gates 2 and 3
- **Investment valued between AUD5 million - <AUD15 million:** The CEO is responsible for the approval for a project to pass Gate 2, Gate 3 and post Gate 3 additional funds
- **Investment valued between AUD2.5 million - <AUD5 million:** The COO is responsible for the approval for a project to pass Gate 2, Gate 3 and post Gate 3 additional funds
- **Investment valued between AUD0.5 million - <AUD2.5 million:** The GM is responsible for the approval for a project to pass Gate 2, Gate 3 and post Gate 3 additional funds

- **Investment valued at <AUD0.5 million:** The appropriate sub delegation is responsible for the approval for a project to pass Gate 2, Gate 3 and post Gate 3 additional funds.

2 KEY NETWORK INVESTMENT STEPS

Ausgrid's [Company Procedure \(Governance\) – Network Investment Governance](#) outlines what is required to obtain approval at various stages of the Network Investment Governance process. The key investment steps required to provide the necessary information for investment approval are outlined in Figure 3, and provided in more detail in Ausgrid's [Company Procedure – Network Investment Governance Decision Pathways](#) Annexure B - Investment Governance Process Flow diagram.

Figure 3. Network investment decision process



Planning documents, including procedures and forms / templates, required at each step of the process are identified in Ausgrid's [Company Procedure - Network Investment Governance Decision Pathways](#) document. Figure 4 summarises the required approval documentation by investment lifecycle stage. Templates are provided and current versions maintained on Ausgrid's NIGF intranet site.

Figure 4. NIGF planning documents by investment lifecycle stage



Source: NGIF on The Wire (Intranet)

2.1 Identify Needs and Develop Options

The 'Identify Needs and Develop Options' stage of the NIGF is illustrated in Figure 5. While further stages in the Investment Governance process deal with individual program and project approval, the "Identify Needs and Develop Options" stage is Ausgrid's portfolio investment process. Long-term (5 - 10 year) asset plans and strategies are developed by the Head of Asset Investment, Asset Management & Operations to identify the Network demand and needs.

Asset Management & Operations division defines the Network investment portfolio based on network needs, and prioritises the portfolio on a risk basis to develop the Portfolio Investment Plan (PIP) and is responsible for the high level identification and assessment of delivery risks or constraints that may form part of the Network investment portfolio. Feedback is then provided to facilitate development of an agreed portfolio that best addresses network investment needs, within the internal and external constraints faced by the business.

An initial risk ranked investment portfolio is developed based on weighted risk scores arising from the application of the "Capital Allocation Selection Hierarchy" (CASH) process, to each program / project proposal. In some cases, the weighted risk scores arising from the CASH process will be over-ridden in the subsequent prioritisation of the portfolio by management. For example, programs to remove risks associated with legacy assets where it may not be economically preferable or physically possible to eliminate a high risk within a five or ten year planning horizon.

Another key input into the Network PIP is the Network Resource Demand (NRD) Plan. This involves the identification and assessment of the resource model(s) required to deliver the Network investment portfolio, taking into consideration work program, delivery models, utilisation rates and productivity requirements.

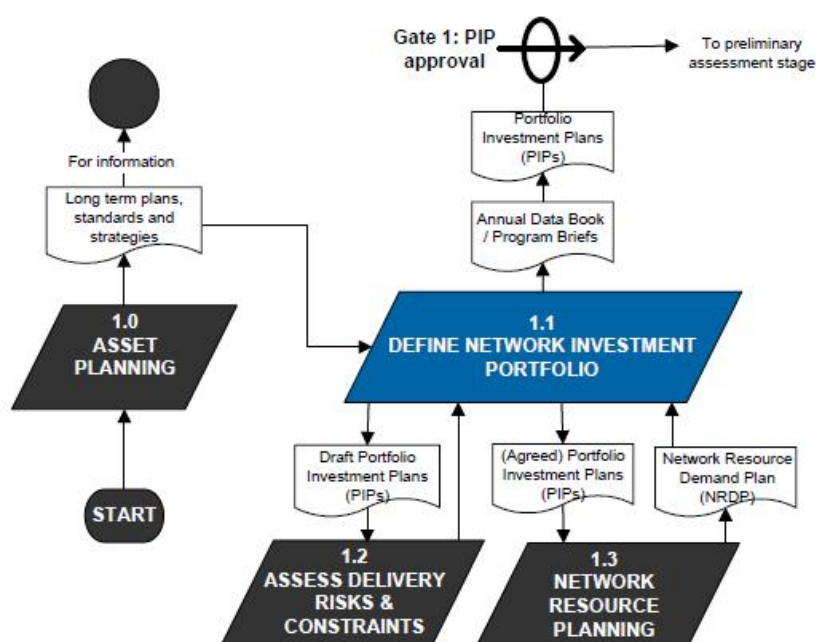
The resulting PIP is presented to the Board for approval (Gate 1). A decision by the Board at Gate 1 to change the PIP may result in a review of the NRD Plan.

Ausgrid prepares a Delivery Plan² (developed for one or more years) to define the annual delivery targets for network programs/projects/tasks and associated baseline budgets. It also informs and confirms with the delivery partner (internal or external) their ability to complete/deliver work.

The One Plan is developed from the Delivery Plan and is an operational one year plan, reviewed and updated annually.

² [Company Procedure - Network Investment Governance - Network Delivery Plan](#)

Figure 5. Identify Needs and Develop Options workflow



2.1.1 Preliminary assessment

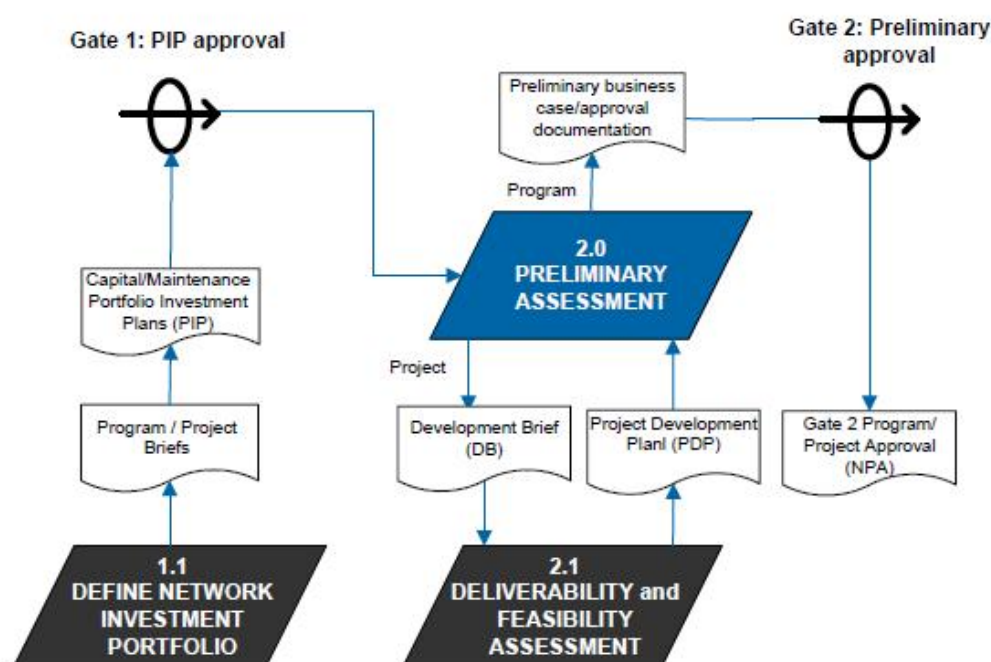
The Head of Asset Investment, Asset Management & Operations is responsible for the preliminary program or project assessment to enable business case submission for Gate 2 approval. At this gate, the Network need for the program / project is being tested prior to proceeding to the detailed estimate stage. Gate 2 approval provides approval to:

- Complete program / project design
- Place orders for long lead time standard equipment
- Seek pricing from the market for externally delivered works.

A more detailed assessment of the deliverability and alternative options for a particular network investment is then carried out, which feeds into the preliminary assessment. The preliminary business case and / or approval documentation is then submitted to the Board for Gate 2 approval.

The 'Preliminary Assessment' stage of the NIGF is illustrated in Figure 6.

Figure 6. Preliminary assessment workflow



2.2 Develop program / project

After Gate 2 approval is achieved, responsibility for the development and approval of the program / project moves to the program / project stage (illustrated in Figure 7). During this stage, detailed project planning, including cost estimates and relevant approvals in order to achieve final investment approval (Gate 3 approval) is undertaken. Gate 3 approval is primarily testing the efficiency of the delivery model of the program / project and confirming the timing and cash flows.

Reactive work requests received by Ausgrid are assessed on the basis of project priority along with the proposed program funding allocation. If an appropriate program does not exist, program confirmation is required from the Head of Asset Investment, Asset Management & Operations. The addition of the work to the program is assessed by considering scope, costs, system need date and resource capability and capacity. If multiple options exist and / or the scope and costs are not well defined, then a development brief and feasibility report are prepared. Otherwise, a project or work order is created.

Projects identified within program plans derived from the Gate 2 preliminary approval business case, as well as projects identified from reactive work requests, are assessed to verify key project details including constructability, design and estimates prior to final approval.

2.4 Evaluate

Once a program / project is executed and closed, evaluation of the program / project is undertaken to determine if investment benefits have been realised. Ausgrid monitors the completion of key investment tasks that support the evaluation and closure of the program/project defined in [Company Procedure - Network Investment Governance Program/Project/Task Close](#). These include, where applicable:

- Completion of post implementation reviews
- Completion of lessons learned
- Issue of project close out report
- Contractual and financial closure.

Completion of a post implementation review is an important step to enable lessons learnt during project planning, development and delivery to be documented and incorporated into nominated future projects.