5.04

Prioritisation Investment Plan (PIP) process

Ausgrid

Content

1 PORTFOLIO INVESTMENT PLAN PROCESS OVERVIEW

1.1 Introduction

This document describes the investment prioritisation process which Ausgrid follows to develop its risk prioritised network capital investment portfolio. It details the processes undertaken to ensure that our capital expenditure forecasts are prudent and efficient.

1.2 Overview of the process

Ausgrid has a prudent and robust process in place to ensure that the capital expenditure program represents a reasonable estimate of the lowest cost solution to address a genuine network need, consistent with the capital expenditure objectives.

Risk based investment prioritisation is one of the key stages (Gate 1) in Ausgrid's governance process. The key stages of Ausgrid's governance process include:

- Governance around the policies and standards which drive key triggers for investment, tested by independent and peer review endorsement.
- Effective input early in the process with the provision of long term (forward 5 to 10 years) strategies and plans to the Executive Management.
- Annual development by the business of the risk prioritised investment portfolio for approval by the Executive Management (Gate 1). Effective risk based prioritisation enables management to make an informed decision based on its risk appetite with an understanding of the risk versus expenditure position rather than uninformed changes to the portfolio.
- Preliminary individual project approval outlining the need and the options to address it (Gate 2). Approval is by the delegated authority. All projects with a total estimated investment above $2.5 million are subject to independent and peer review as part of the governance process. The review tests the need for the investment and the prudency of the proposed options.

The ability to prioritise investments is an important factor in the development of the portfolio investment plan. The methodology Ausgrid uses for prioritisation has been developed to be consistent, efficient and transparent in order to articulate the risk outcome associated with a particular investment scenario.

1.3 The CASH prioritisation process

As part of the capital governance and risk management framework, the Capital Allocation Selection Hierarchy (CASH) methodology is used to assist in the selection of the projects and programs which best meet the business objectives, for inclusion into the capital expenditure planning process each year. The CASH methodology was first utilised by Ausgrid in 2013 to present a risk prioritised investment portfolio and has been integrated into each revision of the portfolio investment plan when it is updated.

The CASH methodology is used to assess and prioritise projects and programs according to the level of associated risk and to present recommendations for the optimal investment portfolio to the Executive Management. The network risk topics considered in CASH are:

- Network asset condition
- Public safety, environmental or regulatory impact

- Network initiated fire risk
- Network reliability impact
- Community impact (Reputation)
- Work health safety – employee risk
- Network capacity implications.

Each of the risk categories are weighted equally in assessment. In order to facilitate an effective prioritisation, each project and program is broken down into pre-prioritised subcomponents of short term need (immediate requirement), medium term need (short-term requirement, but risk-manageable prior to capital investment), and long term need (expected future or strategic capital investment requirement).

The CASH methodology and risk configuration has been independently reviewed and recommendations implemented to better align its underlying risk profile with the corporate risk matrix.

The objective of the prioritisation process is to identify prudent opportunities to defer or avoid capital expenditure based on an assessment of relative risk such that the requirement for investment funding could be minimised and better meet the goal of customer affordability. The prioritisation process is conducted in parallel with Ausgrid's planning processes, and each informs the other to arrive at the resulting capital expenditure forecast.

Key elements of the prioritisation process are:

- At several points in the development of the expenditure plans, Ausgrid identifies a full suite of projects and programs that would comprise the proposed expenditure portfolio. This is at a granular level involving between 500 and 600 individual line items.
- Each project or program is assigned a risk ranking, based on a consistent methodology for assessing risk. The consistent application of a single approach by each of the investment planners allows objective ranking of projects in a consistent way.
- A process of feedback and iteration refines the plans and risk assessments as the expenditure forecasts are refined with multiple passes through the risk prioritisation tool.

1.4 The Portfolio Investment Plan

One outcome of the CASH prioritisation process is the document referred to as the Portfolio Investment Plan (PIP). The PIP is prepared and approved by the Executive Management annually as a key stage in Ausgrid's investment governance process and is also referred to as the 'Gate 1' approval.

The PIP is a risk prioritised list of all network capital projects/programs currently in progress or proposed to be undertaken. The document captures network expenditure only (that is, it excludes non-system capital expenditure, which indirectly support the operation of the network and primarily consists of ICT, Property and Fleet expenditure).

The PIP contains the following information for each project/program:

(a) Project/Program ID and description.

(b) Project/Program Type: denotes whether the planned activity is a program (a program is a large volume of small and similar activities conducted independently of each other, for example upgrades of similar "Ring Main Switchgear" conducted at separate sites across a wide geographic area), or a major project which is generally situated in a localised geographic area.

(c) “Principle driver” of the investment: whether the project or program is a renewal of the network, maintaining or growing capacity of the network; compliance with regulatory obligations, executing network connections. Note that these are business drivers and will not align with the AER’s RIN drivers.

(d) “Investment reason” of the investment enables sub-categorisation of the programs and includes planned, conditional, reactive, major project, other system or support.

(e) The total expenditure allocated to the project/program in each year of the regulatory period in nominal dollars.

(f) The priority ranking resulting from the application of the CASH questionnaire and risk scoring process.

(g) “Reg Period $” refers to the total expenditure on that project or program over the current (that is, 2019-24) regulatory period in nominal dollars.

(h) “Reg Period Cumulative” is a running total of expenditure, representing the expenditure of each project/program and the higher ranked project/programs before it on the list;

(i) “Percent” refers to the cumulative percentage of proposed expenditure constituted by each project/program and the activities ranked before it on the list. For example, the last entry in the list is 100%. This means that the last activity on the list and all of the activities preceding it constitutes 100% of Ausgrid’s proposed expenditure. That is, if Ausgrid is allowed 100% of its proposed expenditure, it will undertake all of the activities on the PIP project list. Alternatively, the PIP project list can be reviewed by management and an informed decision made as to which projects and programs may be impacted (and their corresponding risks) while meeting business objectives and addressing genuine network needs.

It is important to recognise that investment planning is undertaken concurrently with the development and risk assessment of the overall portfolio. Investment planners are required to undertake risk assessments for each project and program using the CASH methodology, and to include alternative project/program timing scenarios as part of finalising the proposed project/program. Ausgrid’s expenditure forecast is constructed and progressively refined with each iteration over a period of time.

Delivery risks and constraints are also reviewed and, where required, incorporated into the plan. Sensitivity and economic analysis is conducted with consideration to the viability of the capital structure under a number of scenarios.

The investment governance committees review the resulting portfolio and provide an initial top-down challenge process. This process tests the projects and programs, both for consistency of risk prioritisation and for deferral risk.

Ausgrid recognises that the factors driving network investments and risk can change over time – for example due to changes in demand, failure modes, asset deterioration, delivery costs, standards and policies. As a result, a formal change control process is in place to provide governance and transparency for any changes to the Executive Management-approved portfolio and risk position.