

Asset Management Commercial Risk Framework Policy – Expenditure

Responsible Officer: Branch Manager Program Development

Policy Custodian: General Manager Asset Management

Division: Asset Management

Date of effect: 1 July 2014

Date of last review: 1 July 2014

1. Scope

This policy forms the foundation for the Asset Management Commercial Risk Framework (CRF) which will apply to the Asset Management and Network Services divisions and its staff. This policy will assist in providing certainty, consistency and simplicity in providing a risk-based approach to the financial planning, budgeting, approval, management and forecasting.

2. Purpose

The purpose of the Policy is to provide a sound, simple and useable framework for effective commercial risk and approvals process management in ActewAGL Distribution (AAD). This is fundamental to achieve sound corporate governance and provide certainty, consistency and understanding around financial management of asset management and network services.

This Policy provides a risk-based approach towards the commercial management of expenditures (both capital and non-capital). It is acknowledged that revenues are critical in providing investment funding; therefore a similar risk-based approach to managing revenues is prudent.

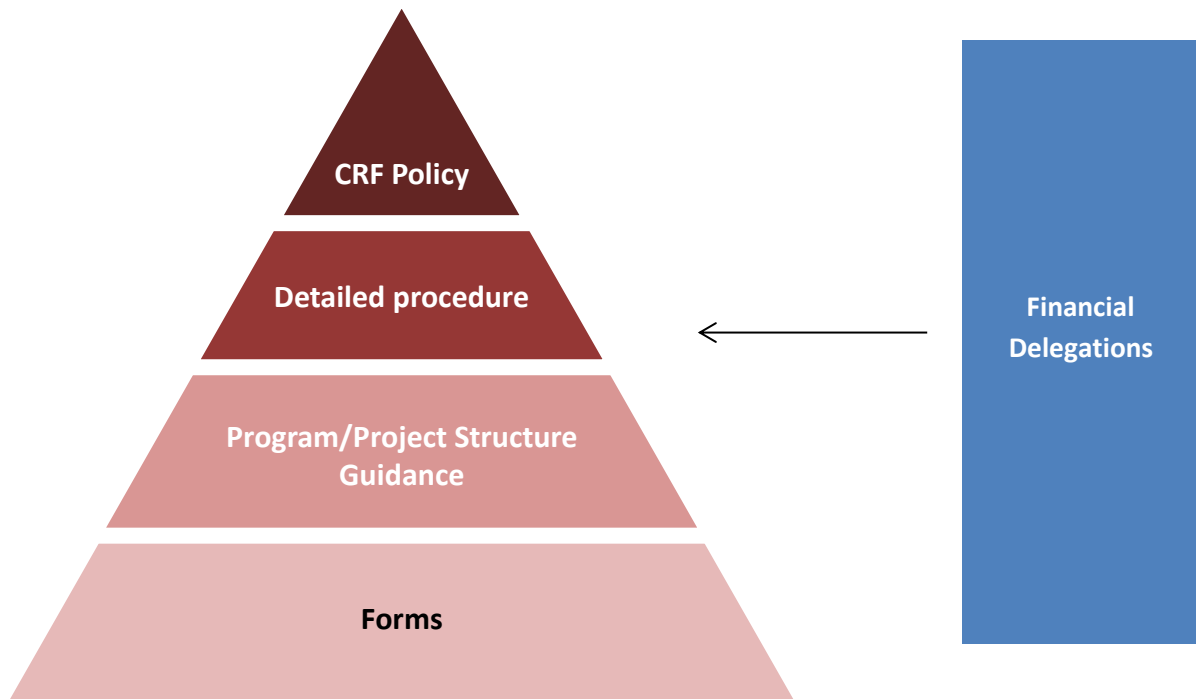
The Commercial Risk Framework (CRF) is a key enabler of the Asset Management Framework (AMF) and in operation complements with the Corporate Risk Management Framework.

This policy and its supporting artefacts replace the former procedure: “EN 4.09 P2 – Business Planning, Project Planning, Project Approvals, Budget Management and Financial Forecasts”.

The CRF incorporates this policy and is supported by additional layers of procedure, guidance, and forms, overlaid by the existing financial delegations framework, to facilitate commercial risk management within the business as outlined in Diagram 1. The CRF provides the framework and direction for ActewAGL in relation to the following business deliverables:

- Long-Term Business Planning
- Annual Budgeting and Program Administration, and
- Detailed Project Planning, Estimating and Approvals.

Diagram 1: Asset Management Commercial Risk Framework



3. Policy

3.1 Commercial Risk Framework Policy Statement

In accordance with ActewAGL's organisational objectives, Asset Management's CRF Policy requires that:

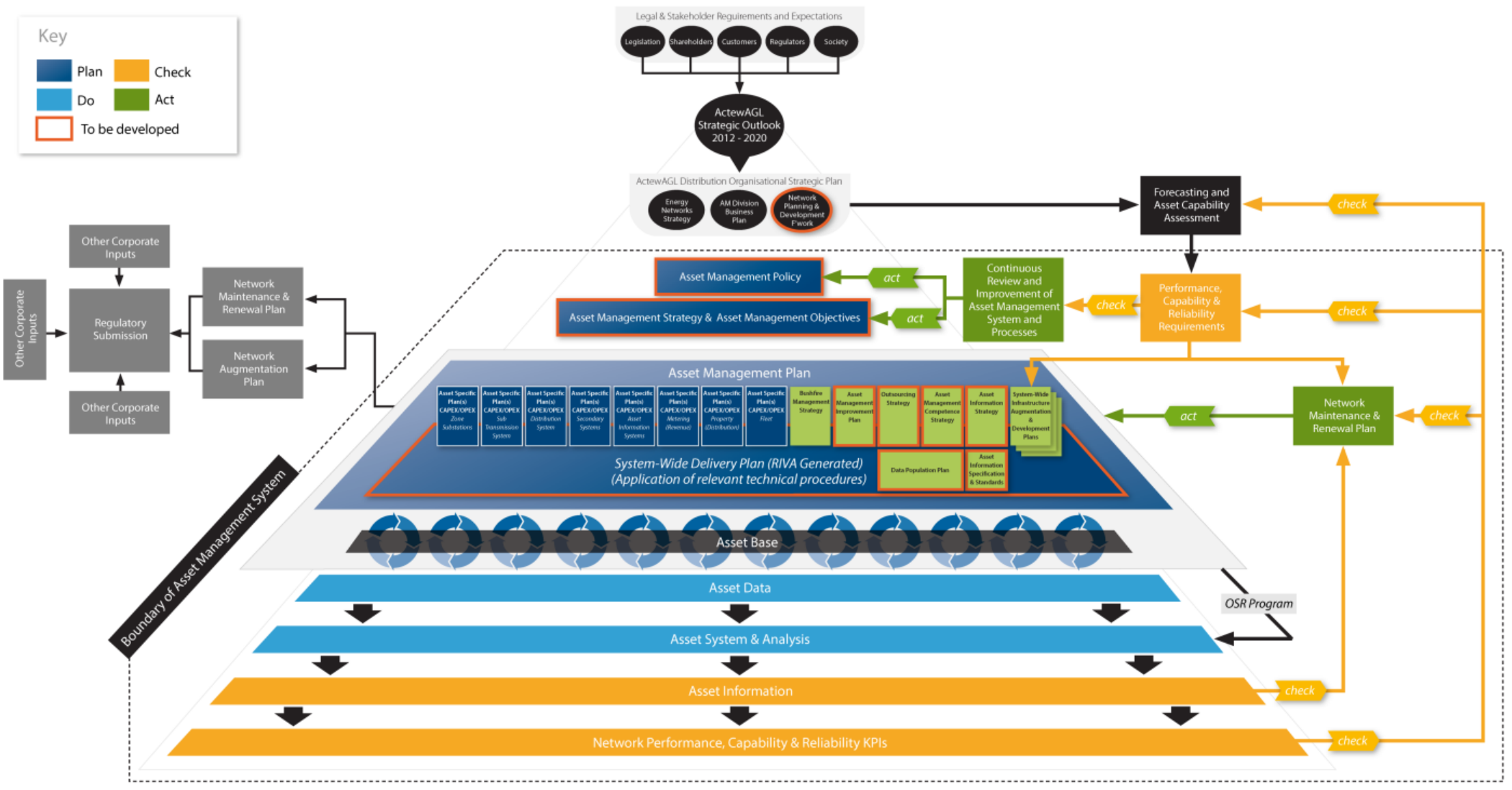
1. All programs and projects shall be managed in full compliance with any relevant statutory and mandatory legal and safety requirements
2. The CRF approach shall be appropriate to the scale, value, risk, nature and relative importance of the programs and projects to achieving the overall organisational objectives
3. Annual budget and program and project level estimates shall be implemented with a consistent budgeting methodology that reflects expected actual cost, allowing appropriate contingency where applicable
4. ActewAGL shall proactively seek continual improvement of its program and project financial management capabilities to ensure value for money for customers and stakeholders, and
5. The management of program and project operational risk shall be undertaken in accordance with the Corporate Risk Management Policy (DM 173864) and AMF.

3.2 Linkage with Asset Management Framework

A key focus of the Asset Management CRF is to directly support and align with the AMF (Diagram 2) in providing certainty, consistency and simplicity in relation to the requirements, governance and processes in respect of financial management associated with the Asset Management Framework.

The CRF aligns with the Asset Management Policy (Corporate Policy 8.1) by providing a risk-based approach to the financial aspects of project planning, approval, management and forecasting. This alignment extends to the overall structure of both the CRF and the AMF, with shared policy characteristics to ensure that the CRF complements and enables the AMF.

Diagram 2: Asset Management Framework



3.3 Overall Strategic Alignment

Diagram 3: Line of Sight Framework

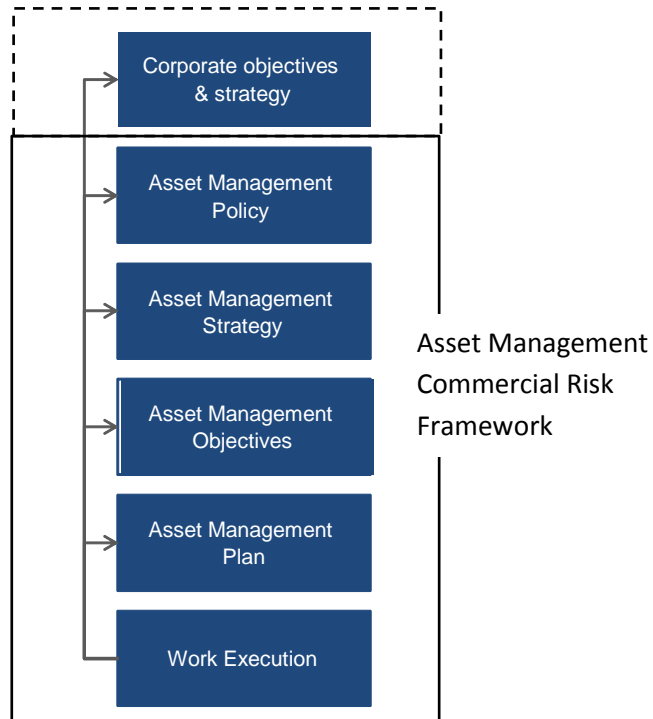


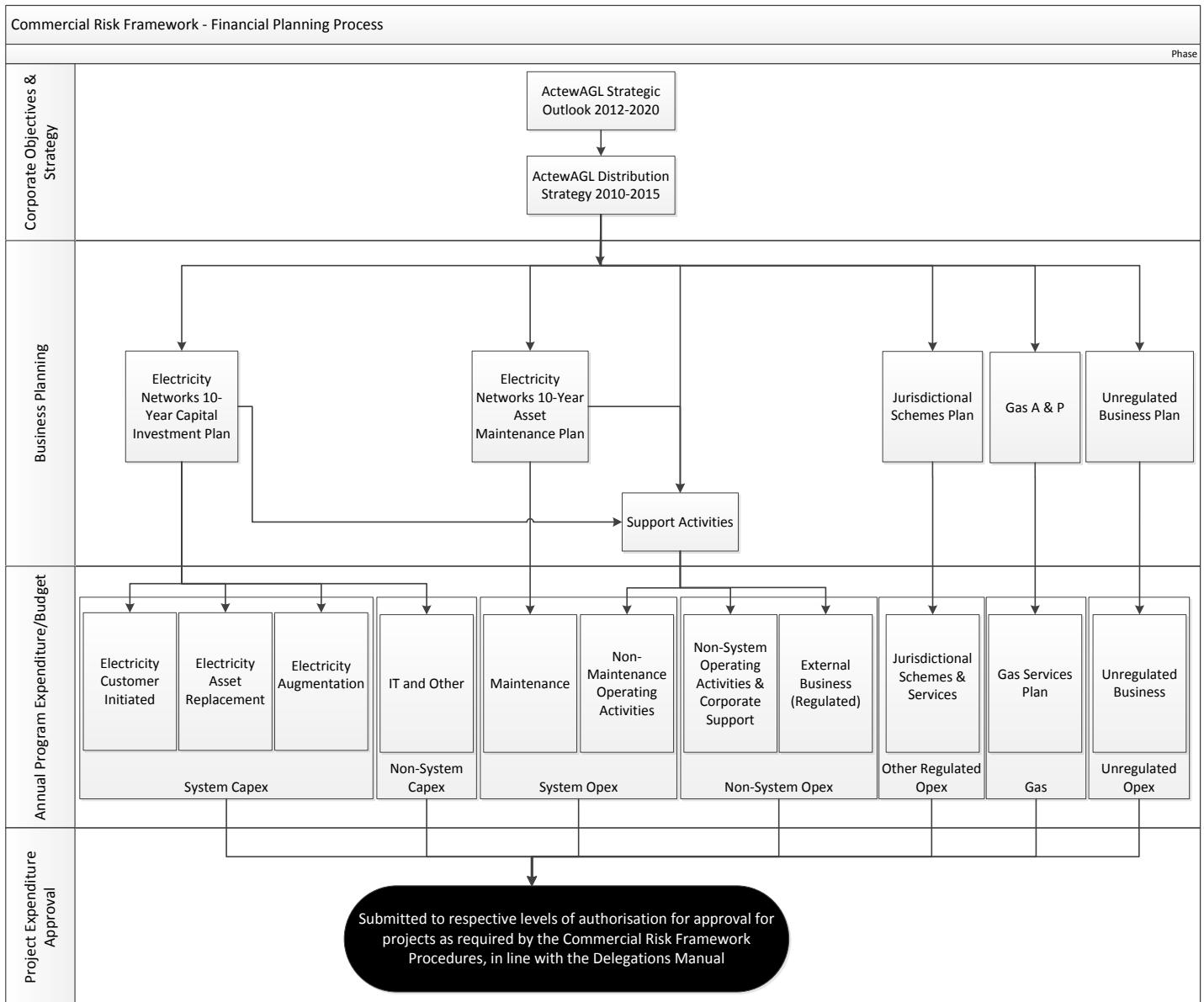
Diagram 3 provides a simplified version of Diagram 2 and outlines the ActewAGL Asset Management Strategy “Line-of-Sight” characteristics as defined by PAS55. This ensures a clear “Line-of-Sight” between the company’s activities on the ground, including asset interventions, and ActewAGL’s overall Organisation Strategic Plan.

The Asset Management CRF directly supports the boxed area in Diagram 2 “Boundary of Asset Management System” and this is also illustrated in Diagram 3 above.

4. Asset Management’s Financial Planning Process

The following diagram provides an end-to-end overview of the Financial Planning Process. The Asset Management CRF outlines the requirement for program level budgets to be derived from the Asset Management Plan, which should in turn be reflected in the Asset Management Strategy, and ultimately be driven by the *ActewAGL Strategic Outlook 2010-2020*.

Diagram 4: Commercial Risk Framework - Financial Planning Process



The Financial Planning Process is covered in detail in the supporting Asset Management Commercial Risk Framework Procedure documentation.

4.1 Business Planning

Once the Corporate Strategic Planning Process is complete, the key components at the Asset Management Plan level of the Financial Planning Process are:

1. 10-Year Plans
 - a. Capital Investment Plan – Electricity Networks
 - b. Maintenance – Electricity, and
 - c. Gas Services Plan – Capital and Maintenance.

These 10-Year Plans are the summation of the planning outcomes and are supported by specific and detailed planning and analytical studies where appropriate. These Plans form the basis of all financial and regulatory capital and maintenance expenditure budgets and forecasts and are the key underlying documents in the expenditure approval processes.

These key 10-year plans are supplemented by additional management plans at the Asset Management Plan level including:

2. Jurisdictional Schemes Plan
3. Support Activities
4. Unregulated Business Plan, and
5. Operational Business Expenditure Justifications.

4.2 Annual Program Expenditure/Budgets

Annual Program Expenditure/Budgets are prepared and approved on an annual basis and are categorised into the 7 distinct categories with supporting categories as outlined in diagram 4 above. Further detail in respect of the budgeting procedures is outlined in the supporting Commercial Risk Framework Procedure documentation.

4.3 Project Expenditure Approvals

All expenditure made on Electricity Network capital projects, Non-Systems capital projects or Unregulated Business projects requires formal approval with the exception of expenditure incurred up to the tolerances prescribed in the Commercial Risk Framework Procedure documentation.

With respect to capital expenditure AAD has been, and continues to refine its capital investment governance arrangements. AAD will seek to take an investment management approach ensuring that the organisation receives value for money from its capital investments.

Operational expenditure in respect of Electricity Networks is approved at a program expenditure level, with additional governance and reporting in place to ensure appropriate controls in respect of operational expenditure.

Approval must be sought from the appropriate level of delegated authority, with project approval, where required, consisting of the following elements:

- Financial Authorisation (Budget Recognition and Alignment)
- Technical Network Approval, and
- Financial Approval.

Expenditure incurred in respect of Gas Network Capital projects must undergo appropriate approvals as specified in the Distribution Asset Management Services (DAMS) Agreement between ActewAGL Distribution and Jemena Management.

6. References

a. External references

PAS 55-1:2008 Asset management (available through ActewAGL's subscription to [Standards Online](#))

b. Internal references

Internal – Corporate Policies

- 5.0 Corporate governance
- 6.0 Legal compliance
- 7.3 Risk management
- 7.5 Workplace safety
- 7.9 Environment
- 7.11.1 Asset management and accounting
- 7.14 Ring Fencing, and
- 8.1 Asset Management Policy

Internal – Procedures

- 9.3 P11 Pricing for External and Ancillary Business
- ActewAGL Administrative and Financial Delegations Manual, and
- Commercial Risk Framework Procedure

7. Communication

This policy shall be communicated to relevant managers, staff and other stakeholders through the following mechanisms:

- ActewAGL intranet
- ActewAGL internet (policy summary)
- Incorporate key elements into relevant staff training and information sessions
- Incorporate into relevant contracts, and
- Display of key elements of the policy at company premises.

8. Continuous review and improvement

The policy custodian shall ensure that this policy is reviewed not less frequently than every two years and that reviews consider the following at a minimum:

- Whether the policy remains relevant, suitable, appropriate and consistent with overarching strategic and business plans, and related policies
- Opportunities for continual improvement in asset management approaches and activities, and
- Opportunities for improvement to the format, communication and implementation of this policy.