

DRAFT NETWORK INVESTMENT GOVERNANCE FRAMEWORK

Including Copperleaf C55 Investment
Decision Optimisation Solution

Supporting Document 12.1.3

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Introduction

- > **In the 2014-19 AER determination the Regulator criticised Essential Energy for failing to demonstrate that:**
 - Past expenditure was necessary to maintain its network safely and reliably.
 - Operating and capital expenditure trade-offs were effectively considered in investment decision making
 - Risk had been adequately considered in investment decision making
- > In response to this feedback Essential Energy has implemented an Asset Investment Planning & Management (AIPM) solution from Copperleaf called C55.
- > This paper provides an overview of C55, how investment governance will operate after the implementation of the tool.

What is C55

- > *'Copperleaf C55 is a unique AIPM solution that helps asset intensive organizations decide where and when to invest in their businesses to optimise performance and manage risk.'*



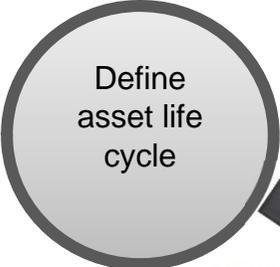
Benefits of C55

> C55 has the following benefits:

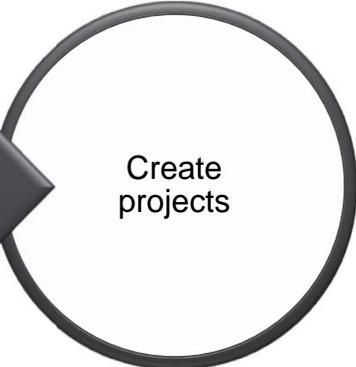
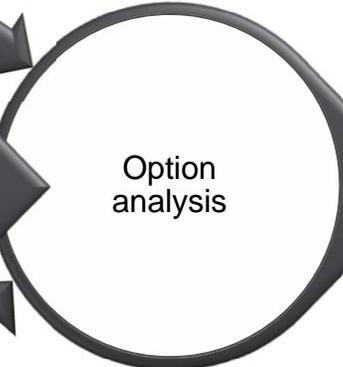
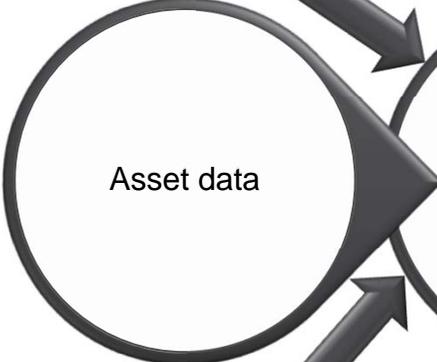
- Considers the risk and financial impacts of investments
 - Evaluate investments based on the value they contribute and their alignment to strategic objectives
 - Coordinate competing investment plans to achieve an optimised long-term plan that meets all constraints
- > The C55 optimisation process uses a multi-criteria decision analysis, which helps decision-makers understand and quantify business risks and uncertainties, so that objective decisions can be made that respect all priorities.
- > This approach allows Essential Energy to obtain the best portfolio of investments that achieves the optimal balance of cost effectiveness, risk mitigation, customer expectations, asset and business needs, while respecting the imposed constraints and decision-making criteria.
- > The process also considers resource availability and minimising customer impacts.

How does C55 work?

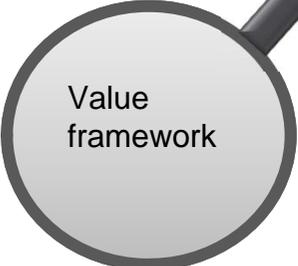
- Expected asset degradation profile
- Expected impact
- Probabilities of occurrence
- Identify Network constraints



- Asset conditions assessed based on standards
- Asset condition updated based on inspection outcomes
- Network performance



- Standard risk and benefits definitions
- Assign financial values to risk and benefits definitions



- Project/ program level option analysis
- Develop multiple investment alternatives to incrementally mitigate risks

- Projects are created based on value creation to EE derived from asset conditions and benefits

Key inputs into C55

> Key metrics such as reliability are used to:

- Manage risks
- Facilitate trade-offs between investments
- These are used to prioritise investments by providing the dimensions for consideration when assessing the degrees of risk and the risk mitigation that each proposed investment level provides against each business value.

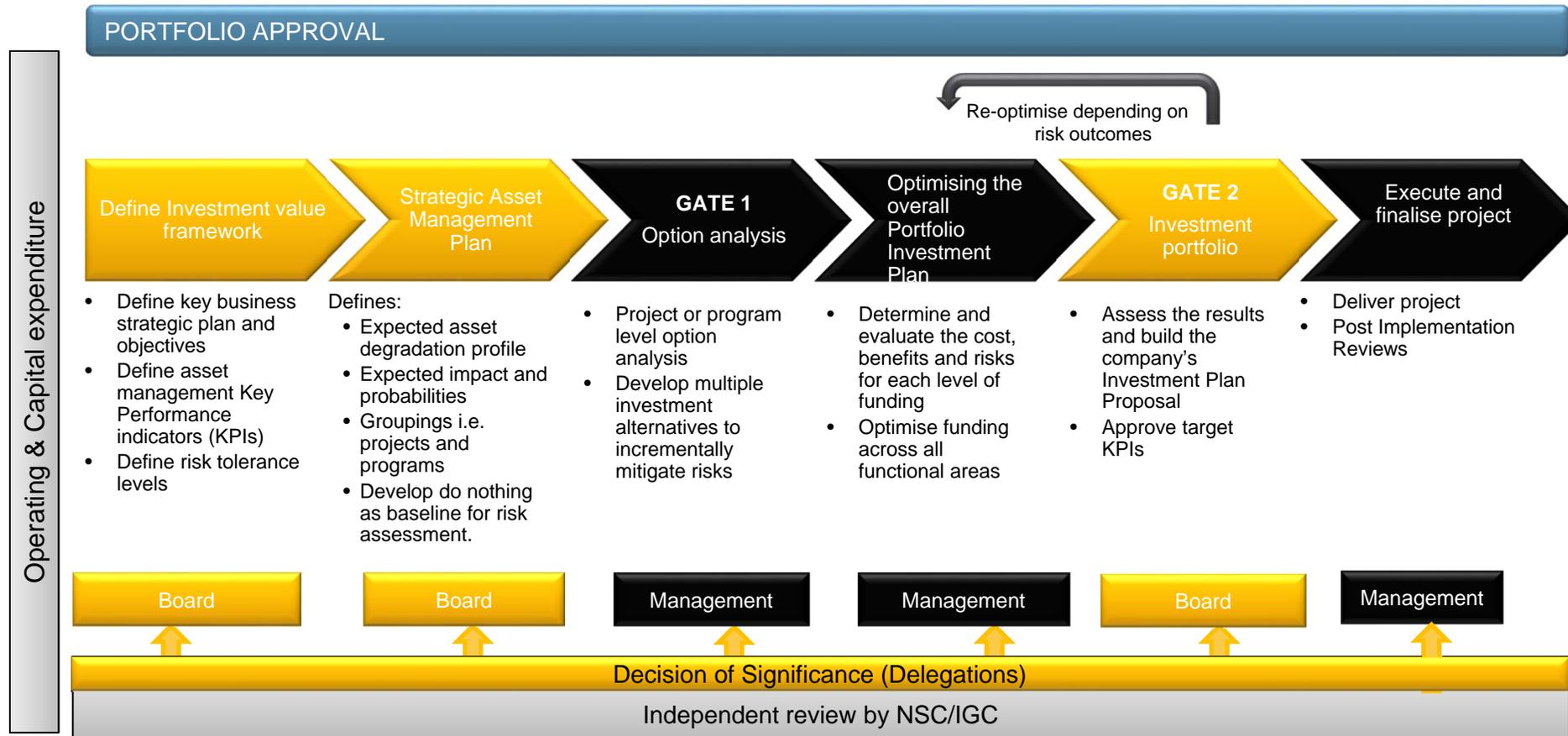
> Risk Management framework:

- A probability and severity-of-outcome risk matrix is used to determine the impact ratings on each business metric.
- The Probability scale ranges from rare to almost certain, and the severity-of-outcome scale ranges from insignificant to severe.
- This approach ensures consistency in the assessment of risk, and that funding and resources are allocated to the projects that will mitigate the most possible risks (resource allocation may be outside C55).
- Determine baseline risk (risk before investment) and residual risk (risk after investment).

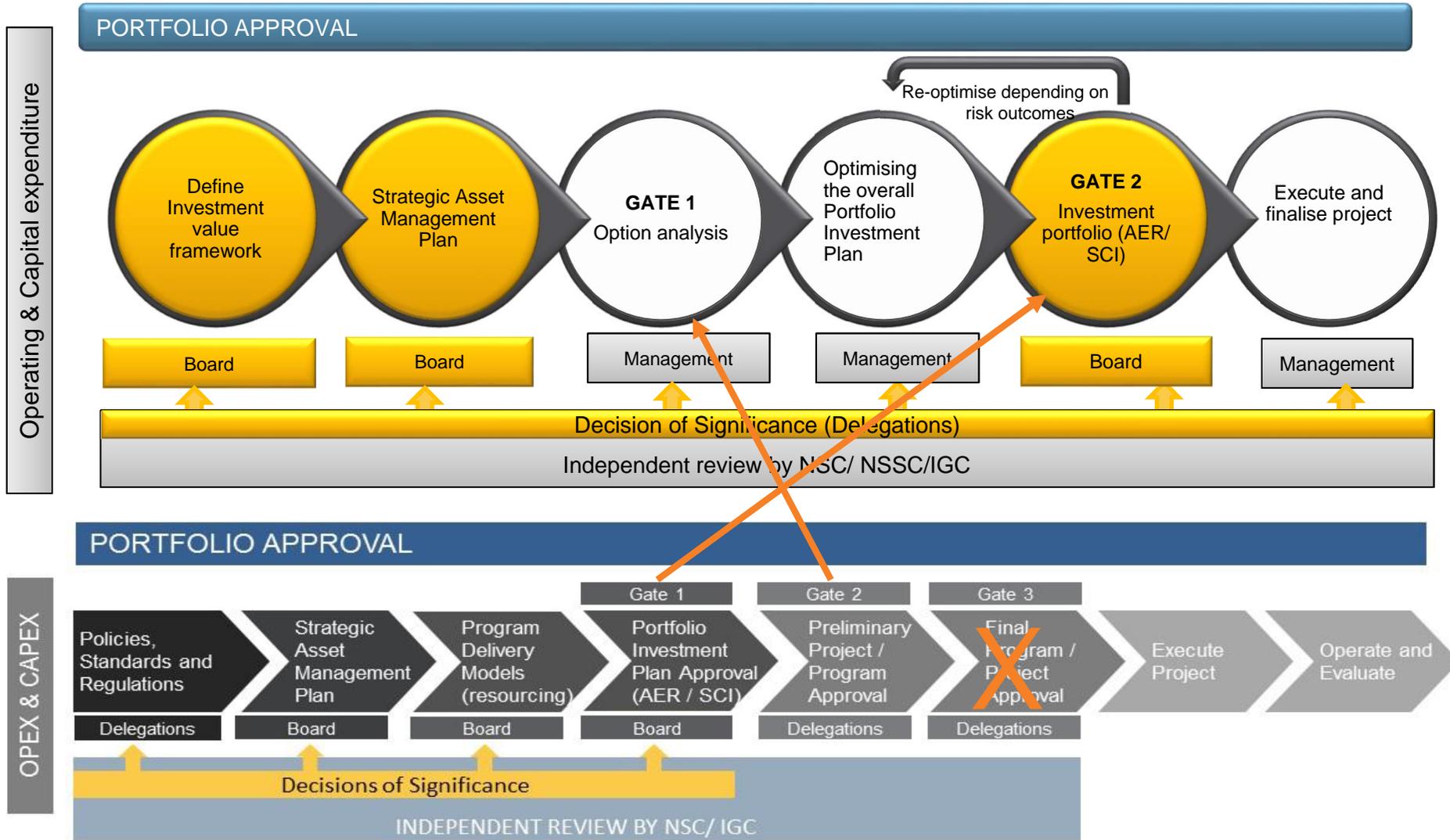
> Financial benefits and Key Performance Indicators (KPIs).

> Asset information

DRAFT Network investment governance process



Investment governance process vs current Network process



Role of investment governance committees

- > The key investment decisions are likely to be made once or twice a year because the risk and benefit outcomes are at a portfolio level
- > Changes to the portfolio will/ may affect the target risk and benefit outcomes
- > Investment governance committees including the Board will need to make their decisions once or twice a year
- > These changes will mean that the role of the committees will change from the current status
- > The involvement of the committees will depend on their role and the point at which key decisions are made.

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