

Appendix 1.23: Financial governance policy

**Regulatory proposal for the ACT electricity distribution network 2019-24
January 2018**

Disclaimer: On 1 January 2018, the part of ActewAGL that looks after the electricity network changed its name to Evoenergy. This change has been brought about from a decision by the Australian Energy Regulator. Unless otherwise stated, ActewAGL Distribution branded documents provided with this regulatory proposal are Evoenergy documents.

Policy – Financial governance for the EN Division

IMS Document Number:

Policy Owner: Commercial Manager (Networks) Version: 1.0

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1. Scope

- 1.1 This policy forms the foundation for the financial governance and the commercial risk framework (CRF) for forecasts, budgets and projects for the Energy Networks (EN) Division, and provides certainty, consistency and simplicity in delivering a risk-based approach to the financial planning, budgeting, approval, management and forecasting.

It applies to the EN Division, and assists by providing the business with a clear and consistent guide regarding the following key planning documents, which define and govern the activities undertaken by the division:

- the Energy Networks strategic business plan (Master);
- the Energy Networks expenditure forecasting methodology (5 year plan);
- the Energy Networks long term capital investment plan;
- the Energy Networks asset management plan;
- the Energy Networks access arrangements plan; and
- the Energy Networks regulatory pricing determinations

This policy also provides guidance regarding governance pertaining to financial, budget management and project activities that are linked with the above planning documents.

2. Purpose

- 2.1 The purpose of this policy is to provide a sound, simple and useful framework for users to follow for effective compilation of the key planning documents that are required to be prepared within the EN Division, and the overarching corporate governance framework for both financial and asset management of network services. The policy and procedure have been compiled to achieve certainty and understanding on how and why these key documents are pulled together and their relevance to the activities undertaken by the EN Division.

This policy is supported by Procedure - Financial Governance for the EN Division.

This policy is supported by additional layers of supporting procedure, guidance, and forms, overlaid by the existing financial delegations framework, to facilitate sound commercial risk and project management within the EN business.

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.

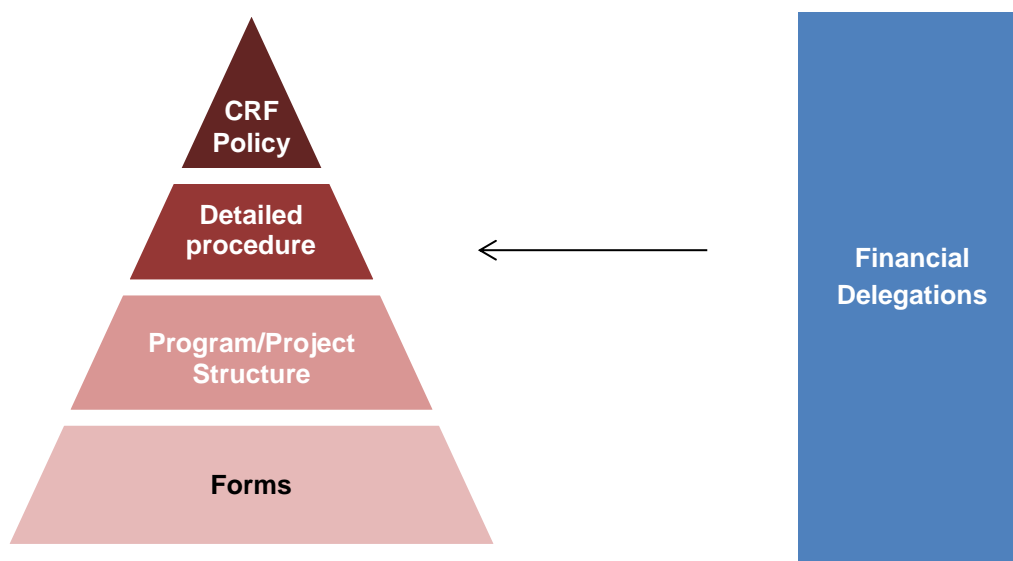
The Commercial Risk Framework (CRF) is a key enabler of the Asset Management Framework (AMF) and in operation complements with the Corporate Risk Management Framework.

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 Policy statement

In accordance with ActewAGL’s organisational objectives, this policy requires that:

1. All programs, plans and projects shall be managed in full compliance with any relevant statutory and mandatory legal and safety requirements;
2. The CRF shall be assessed appropriate to the scale, value, risk nature and relevant importance of the program, plan or project to achieve the overall organisational

objectives;

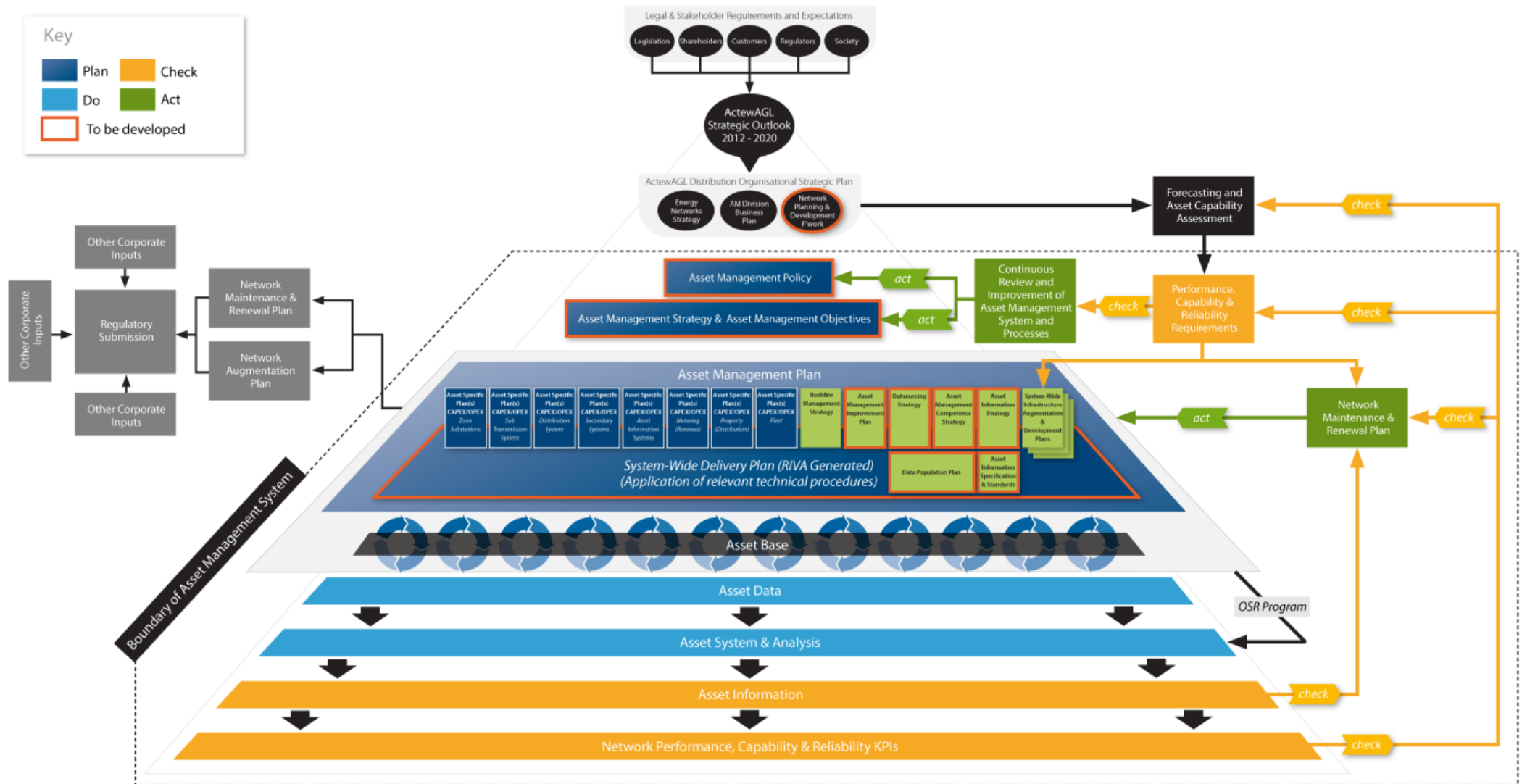
3. Budgets, plans, programs and project level estimates shall be implemented through a consistent approach that reflects expected actual cost, will appropriate allowance for contingency (where relevant);
4. EN Finance, and the broader EN Division, will proactively seek to continually improve the programs, plans and projects with respect to financial management to ensure value for money is achieved; and
5. The management of program, plan and project risk shall be undertaken in accordance with the Corporate Risk Management Policy and the Asset Management Framework (AMF).

3.2 Linkage

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 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



4. Financial forecast, budgets and project planning

Once the ActewAGL Strategic Outlook is completed, the ActewAGL Distribution Strategy will be compiled with subsequent business plans and programs will follow.

The key planning documents that define and govern the activities undertaken by the EN division are listed at section 1.1 of this document. These documents are the summation of the planning outcomes and are supported by specific and detailed planning and analytics (where appropriate).

All project expenditure requires a formal approval process to be adhered to (with the exception of amounts incurred up to an agreed tolerance amount i.e. <\$1,000).

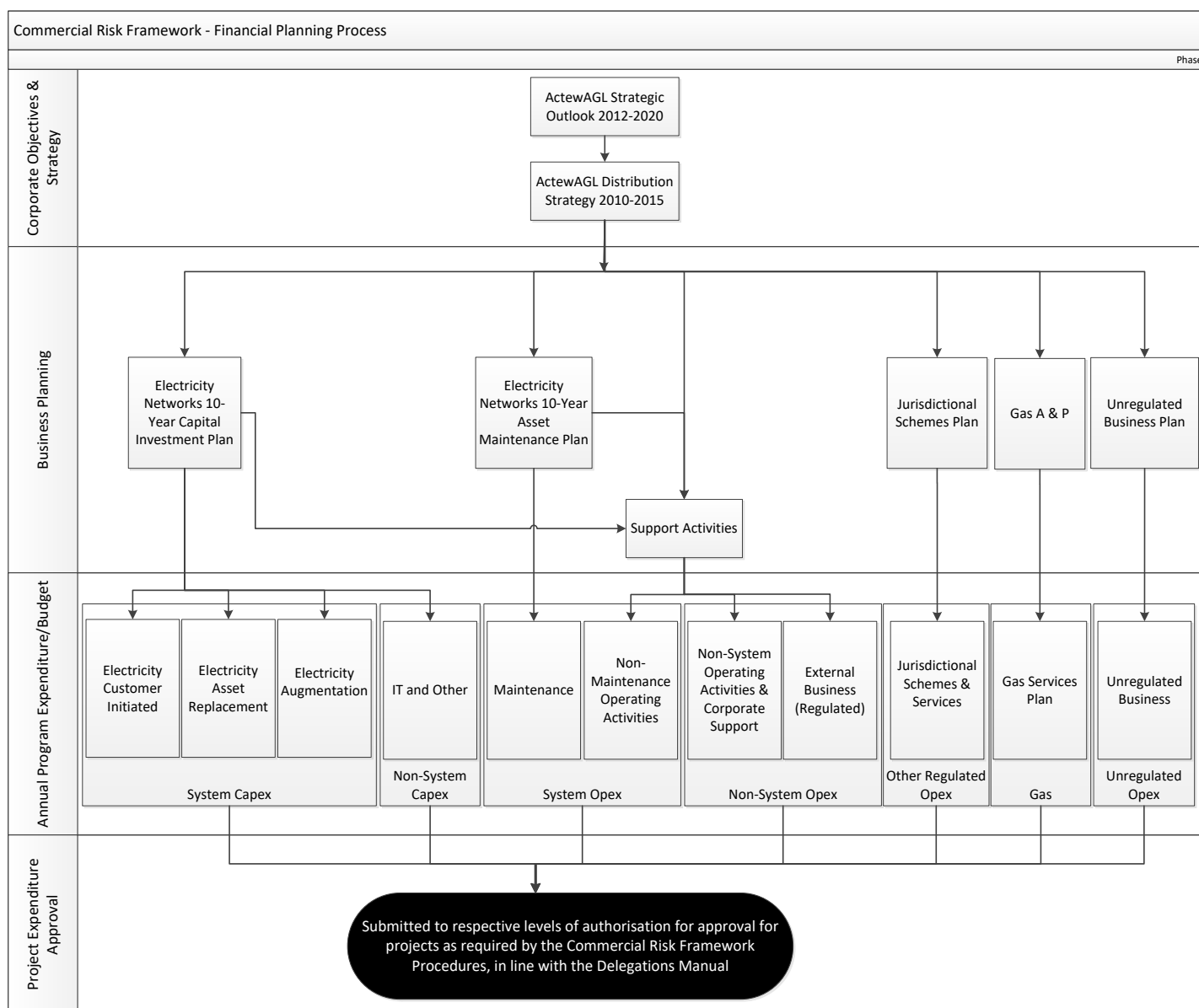
Expenditure has been and continues to be refined in accordance to investment governance arrangements or operational programs of work, with the key objective to ensuring value for money is achieved. Adherence to governance and reporting requirements are in place to ensure that appropriate controls are being met.

Approval must be sought from the appropriate level of delegated authority.

5. Asset Management's Financial Planning Process

The following diagram provides an end-to-end overview of the financial planning process and the associated linkage with the CRF. The diagram 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.

Diagram 3: Commercial Risk Framework - Financial Planning Process



5.1 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 (i.e. below <\$1,000).

With respect to capital expenditure Energy Networks has been, and continues to refine its capital investment governance arrangements. Energy Networks 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.



6. References

Internal – Corporate Policies

- Corporate Governance
- Legal Compliance
- Risk Management
- Workplace Safety
- Environment
- Asset management and accounting
- Ring Fencing
- Asset Management Policy

Internal – Procedures

- Pricing for External and Ancillary Business
- ActewAGL Administrative and Financial Delegations Manual
- 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.