

# **Jemena Gas Networks (NSW) Ltd**

## **2015-20 Access Arrangement Information**

Appendix 6.6

Management response to SKM review

Public

30 June 2014



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JGN Management Response

Internal



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28 May 2014

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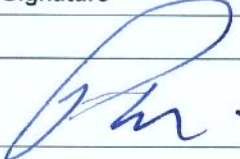

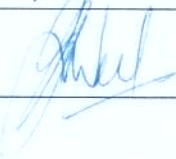
Jacobs SKM Governance Review: JGN Management Response

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## OVERVIEW

JGN in the AA2010 outlined its approach to project governance. Since the AA2010, JGN has continued to develop and improve its project (and program) governance processes. These improvements have included the creation of a Major Capital Projects Governance Committee, improvements in the gating system (the 'project pipeline') and other related processes. The current governance overall is documented in the JGN Governance Guidelines.

JGN has engaged JacobsSKM to review the adequacy and suitability of the JGN governance processes. The review concluded:

*Notwithstanding the (above) improvement suggestions, JGN has in place a capital investment governance framework that is robust in its support of prudence and efficiency in the identification, planning and delivery of its capital program. JGN's focus on capital investment governance provides it the opportunity of being a leader in this field.*

This report is a management response to the improvements suggested as a result of the JacobsSKM review. The response identified the recommendations of the review and provides an action plan, including prioritization, timing and accountability.

## SCOPE OF JACOBSSKM REVIEW

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The scope of the review undertaken by JacobsSKM was as follows:

1. Review and provide an opinion on the adequacy and suitability of JGN's governance structures and processes for capital expenditure, including for identifying and managing mid-project changes, as a means of ensuring and demonstrating the prudence and efficiency of capital expenditure that will be subject to assessment by the AER in accordance with Rules 74 and 79.
2. Recommend changes or improvements to the structure and processes that, in the consultant's opinion, would enhance their suitability for that purpose.

The review included both an examination of JGN governance documentation, actual project documentation and validation through a number of interviews with key JGN staff.

## SUMMARY OF FINDINGS

*There are also opportunities to improve JGN's capital investment governance, including:*

- Strengthening the concept of a single point of accountability through the application of governance structures, particularly the naming of a project sponsor, earlier in the Project Pipeline delivery framework;
- Providing for a clearer mechanism for appointing project sponsors for non-Major Capital Projects;
- Providing for project portfolio governance at the board level to help strengthen the linkage to corporate objectives and policy;
- Improving governance related documentation in areas of consistency, clarity, and completeness.

*JGN will realise the following benefits from improved capital investment governance:*

- Executives accountable for the network performance and outcomes will have greater control and visibility over the investments that determine those outcomes;
- Project and program outputs will be aligned to the required business and network outcomes with greater certainty;
- Programs and projects will have more robust investment justification.
- More efficient use will be made of senior management time;
- Regulatory approval of planned capital programmes will be more readily obtained.

*It is recommended that JGN pursues these opportunities as part of a continuing improvement of its capital investment governance.*

The following section outlines the findings in more detail and provides the JGN management response.

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## 1. RESPONSE TO JACOBSSKM RECOMMENDATIONS

This section outlines:

- Summary of JacobsSKM recommended improvements
- Outline of the actions as the management response
- Prioritisation – low, moderate, high
- Accountability; and
- Schedule for completion

### 1.1 JGN GOVERNANCE PRINCIPLES AND PROCESSES

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JGN has adopted five key principles upon which its project and program governance is based:

- **Scalable and adaptable** – to ensure the right amount of governance, depending on the risks, complexity and strategic importance and be able to accommodate changes in those factors as a project progresses
- **Staged** – to allow focus on the right things at the right time and ensure incremental investment, management of risks and project management rigour.
- **Inclusive** – to support project and program success as well as contribute to organisational success
- **Aligned** – to ensure consistency with corporate policies and authorities as well as Jemena’s legal, regulatory and commercial obligations
- **Continuous improvement** – to encourage frank internal disclosure of project information and allow continuous improvement of project management and project governance

In the review of these principles JacobsSKM concluded that that all principles, except “Inclusive”, are useful and have been demonstrated as being applied

## 1 — RESPONSE TO JACOBSSKM RECOMMENDATIONS

	Recommended improvement	JGN Mgmt Response	Priority	Accountability	Timing
2.1.1	With respect to the principle “Inclusive”:JGN should reconsider either the appropriateness of this principle or the clarity of its definition	<ol style="list-style-type: none"> <li>JGN will clarify the concepts behind the use of ‘inclusive’ as a principle in the next review of the JGN Governance Guidelines including: <ul style="list-style-type: none"> <li>The inclusiveness of the various stakeholders and their roles in the governance process (to be confirmed in RACI models);</li> <li>The key here is that ‘inclusive’ means that governance decisions made in relation to a project need to have regard for the impact of those decisions on the overall program and the business generally (in terms of capital borrowings, regulatory allowances) –To better establish this, it will be build it into the MCPGC charter and into the change management process/templates.</li> </ul> </li> <li>JGN will ensure that these enhancements are communicated to stakeholders.</li> </ol>	Moderate	MCPGC Secretary	Nov14

### 1.2 DOCUMENTATION (GENERAL)

#	Recommended improvement	JGN Mgmt Response	Priority	Accountability	Timing
2.2.1	Greater consistency is required in the documentation, for example between the Guidelines and Major Capital Project Governance Committee Charter	<p>(Note: JacobsSKM has acknowledged that during the processes of continuous improvement it can be expected that there may be inconsistencies between documents.)</p> <p>As part of the update of key JGN documents, a review for consistency will be undertaken.</p>	Low	Oversight by MCPGC Secretary	Review Nov 14 with updates of doc On-going
2.2.2	Greater consistency is required in terminology across documents and in the workplace	As part of the update of key JGN documents, more focus is to be placed upon the change management aspects, especially communications related to terminology.	Low	Oversight by MCPGC Secretary	Review Nov 14 with updates of doc On-going

1.3 REVIEW OF MCPGC CHARTER

#	Recommended improvement	JGN Mgmt Response	Priority	Accountability	Timing
2.3.1	The stage prior to the business case approval at which a project begins to be governed under the MCPGC	JGN has provided further information to JacobsSKM covering this item (12 May 14). This information confirmed that the Guidelines include the Scope definition phase of projects, MCPGC has as a standing agenda item to review scoping phases of projects (including Stage 1 and Stage 2 prior to Business Case approval) within its ambit.  A review of the MCPGC Charter to be undertaken to enhance this aspect.	Moderate	MCPGC Secretary	Nov 14

1.4 REVIEW OF JGN PROJECT GOVERNANCE GUIDELINES

#	Recommended improvement	JGN Mgmt Response	Priority	Accountability	Timing
2.4.1	The responsibility for selecting a project sponsor	JGN has provided further information to JacobsSKM covering this item (12 May 14). This information confirmed that the Guidelines include the process (and responsibility) for selection of the project sponsor.  During these discussions it was identified that the process for selection of the 'program sponsor' for programs of capital work, although well understood through the business, may need to be better documented. A review of documentation related to 'program sponsors' is to be undertaken.	Low	MCPGC	Nov 14
2.4.2	The specifics of the program management arrangements	In addition to 2.4.1, a review to be undertaken to confirm the coverage of 'program management' arrangements. Will be undertaken as part of actions in action set 3.1.	na	na	na
2.4.3	The governance applied prior to nomination of the sponsor as part of the business case	Refer to item 2.3.1	na	na	na
2.4.4	The accountability and reporting requirements of the project sponsor	Governance Guidelines to be enhanced to include duty statement and reporting requirements for project sponsors	Moderate	MCPGC Secretary	Aug14

### 2. COMPARISON TO INDUSTRY STANDARDS

Jacobs SKM has reviewed JGN governance structure and processes by comparison of such against two industry sources:

- Jacobs SKM has compared JGN's governance approach against the approach developed by the Association for Project Management ("APM"). APM is a UK based organisation which promotes the disciplines of project and program management and related to this has a group that focuses on governance. In this comparison, emphasis is on the governance of project management as distinct from project governance<sup>1</sup>.
- Jacobs SKM has compared project level governance with the approach detailed in Ross Garland's *Project Governance, A practical guide to effective project decision making*. This book is principally concerned with the governance of specific projects and it provides application examples for projects of various complexities.

#### 2.1 APM COMPARISON

#	Recommended improvement	JGN Mgmt Response	Priority	Accountability	Timing
3.1.1	<p>The Jemena (JGN) Board does not directly carry overall responsibility for the governance of project management. This role has been delegated through the leadership team to the Major Capital Project governance Committee. The Chair of the MCPGC reports through to the Leadership Team which in turn is responsible to the Jemena Board.</p> <p>It is recommended that JGN consider board level oversight of project governance on a portfolio basis.</p>	<p>JGN has reviewed the need for Board oversight of portfolio level governance. It considers that the intention of this requirement is managed through the auspices of the Funding Committee and through the sign-off of the AMP. The intent of AMP is to ensure capital investment is consistent with business strategy and objectives. Other related Board 'coverage':</p> <ul style="list-style-type: none"> <li>• Budget approval for capex program is by Board</li> <li>• KPIs relating to project performance are presented to the Board regularly.</li> <li>• Internal Audit program which presents to the Board Audit (Sub)-Committee</li> <li>• The DFA sets the threshold of when the Board consider that they need to get involved.</li> </ul>	Low	Complete	Complete

<sup>1</sup> Governance of project management deals with how project management capability of an organisation is governed overall whereas project governance is concerned with how a specific project is governed.

#	Recommended improvement	JGN Mgmt Response	Priority	Accountability	Timing
3.1.2	<p>During client interviews, there was a clear understanding of whether network activities are considered project or are managed as general works. The details about how projects are differentiated from non-projects given that the material reviewed was project related.</p> <p>It is recommended that details on the determination of projects versus non-projects should be included within the Guidelines.</p>	<p>Guidelines to be augmented to define the difference between projects and non-projects.</p>	Low	MCPGC Secretary	Nov 14
3.1.3	<p>The way in which project sponsors are selected for non-Major Capital Projects is not clear in the Guidelines.</p> <p>Performance criteria for governance are not clear although a review of the governance is suggested as part of a project completion report.</p> <p>It is recommended that performance criteria be added to the Guidelines and MCPGC Charter</p>	<p>Refer to 2.4.4</p>	na	na	na
3.1.4	<p>Methods are in place for initiating projects with an appropriate governance structure in place. For instance, activities can only be recognised as projects once a project sponsor has been assigned. There are set governance activities that must occur at each gate in the Project Pipeline to be carried out by either the sponsor or the project steering committee.</p> <p>Methods are also in place at project closeout to review the project performance and to provide a review for lessons learned.</p> <p>It is recommended that the project sponsor be</p>	<p>JGN has provided further information to JacobsSKM covering this item (12May14). This information confirmed that the Guidelines include the process (and responsibility) for selection of the project sponsor.</p> <p>JacobsSKM noted that the project sponsor is appointed at Gate 1. MCPGC is to review the potential for the appointment of a sponsor for projects in its ambit at the time the project is included into the AMP.</p>	Low	MCPGC Secretary	Nov 14

## 2 — COMPARISON TO INDUSTRY STANDARDS

#	Recommended improvement	JGN Mgmt Response	Priority	Accountability	Timing
	named at Gate 1 of the Project Pipeline.				
3.1.5	<p>There is no described process for selecting a sponsor for non- major capital projects.</p> <p>It is recommended that:</p> <ul style="list-style-type: none"> <li>the project sponsor be named at Gate 1 of the Project Pipeline</li> <li>the responsibility for naming the sponsor should be included in the Guidelines</li> </ul>	Refer to 3.1.4	na	na	na
3.1.6	<p>There is a demonstrably coherent relationship between the overall business strategy and the project portfolio, although:</p> <ul style="list-style-type: none"> <li>It is recommended that the project governance structure be put in place during stage 1 of the Project Pipeline.</li> </ul>	Refer to 2.3.1	na	na	na
3.1.7	<p>The MCPGC is not directly a delegated agent of the Board. It does, however, have reporting requirements to the Leadership Team and can therefore be considered a delegated agent of the senior executive team.</p> <p>It is recommended that JGN consider a more direct project governance role for the Board.</p>	Refer to 3.1.1	na	na	na

## 2.2 ROSS GARLAND COMPARISON

#	Recommended improvement	JGN Mgmt Response	Priority	Accountability	Timing
3.2.1	Ensure a single point of accountability for the success of the project. Consistent although it is recommended that the project sponsor be named during stage 1 of the Project Pipeline	Refer to 2.3.1	na	na	na

### 3. GOVERNANCE SUPPORT FOR AER ASSESSMENT

JacobsSKM has compared the reviewed JGN governance structure and processes against typical questions that are posed by the AER in assessing prudence, efficiency, and reasonableness. From this review, it is possible to determine the extent to which the adopted governance structure and process support a prudent, efficient, and reasonable operation.

JacobsSKM review against AER guidelines included 17 items of comparison. Jacobs SKM found that each of these 17 elements was supported by the JGN governance processes and subsequently offered no recommendations based upon this comparison.



# Attachment A

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