TASNETWORKS INTEGRATED BUSINESS SOLUTION

Project Business Case

Version 1.0

29 October, 2015

1. Introduction

The TasNetworks Integrated Business Solution (**TIBS**) project is a business-critical transformation initiative that will enable TasNetworks to improve the way it delivers essential energy services to customers, contemporary with other Transmission and Distribution Network Service Providers (**TNSPs** and **DNSPs**). The work behind this Business Case shows that the recommendation to implement an Enterprise Resource Planning (**ERP**) solution is the least-cost solution to address three critical issues facing the business and facilitate the delivery of the TasNetworks Corporate Plan. The project will:

1. Replace a number of critical applications, including multiple asset management applications that are at end of life.
2. Deliver a seamless, integrated platform to replace a large number of disparate and disjointed IT systems and customised interfaces.
3. Result in process efficiencies that will enable TasNetworks to supply effective services via its $3 billion asset base to Tasmanian customers over the next 10 years.

TIBS will transform how we work and contribute to achieving our strategic objectives across the three pillars:

One Business: It will deliver consistent, simplified business processes, underpinned by a single, enabling IT platform. The project will minimise a number of key business risks, remove duplication, and improve data quality and reporting.

Customers: It will support delivery of effective and efficient services both internally and externally to our customers.

People: It will assist in driving an uplift in capability, new skills and cultural integration through a consistent new way of working.

The Business Case has been rigorously developed over the past 12 months, during which time the project team undertook several investigations to establish the best solution.

TasNetworks first considered information from the predecessor businesses. Both Aurora and Transend had identified the need to replace their increasingly unsupported versions of the Works, Asset Management and Scheduling tool (**WASP**), which was at end of life, together with replacement of a number of other operational applications (for example, the Finance application, Navision, was also out of support). Aurora's distribution business had also identified the need to transition to an integrated platform from a leading solution vendor.

Both transmission and distribution revenue decisions from the AER had provided funding for asset and IT system projects, with Transend and Aurora prudently deciding to defer some of this work until after the formation of TasNetworks.

TasNetworks also considered work undertaken by the network business integration team, which had identified that TasNetworks would inherit a range of disparate information technology systems and processes. The integration team prioritised work to establish TasNetworks for "Day 1" and noted the need for a significant upgrade to and rationalisation of IT systems and processes as part of transforming the new business to realise the full benefits of merger.

The Integrated Business Systems (**IBS**) project was established in July 2014, and examined different platform options for the new business. Specifically, the project compared the merits of various alternative business systems solutions, including ERP and Best-of-Breed (**BOB**) solutions, and concluded that an ERP would provide greater benefits for less cost, including system development from a global supplier and seamless future enhancements such as a customer relationship system, and with reduced risk.

The project team then undertook a robust procurement process to identify a preferred contractor to implement and support the ERP and related infrastructure. This was informed by a Request for Proposal (**RFP**) which identified vendors capable of meeting TasNetworks' business requirements. Detailed financial modelling conducted during this phase also confirmed the ERP as being the least-cost option for the business. Independent advisors were engaged throughout the Business Case phase to assist TasNetworks ensure that it was conducted with an appropriate degree of probity.

The purpose of this Business Case, then, is to:

- Present a detailed analysis of the need for, costs and benefits of implementing an ERP solution;
- Seek approval for the investment of $58.2 million; and
- Seek endorsement of the proposed implementation approach that will minimise business and project risk.

2. The investment approval and efficiency context

Our information management platforms, and related business processes, support the delivery of our core business of regulated distribution and transmission network services. Investment in operating and capital expenditure associated with these services is funded by our transmission and distribution customers, through prices determined to recover our regulated revenues. Operating and capital costs are allocated between service categories in accordance with our AER-approved cost allocation methodology.

Under our regulatory investment requirements, the regulator must consider a range of factors in setting forward operating and capital allowances, to ensure only efficient costs are allowed. In essence, these requirements see the regulator assessing that there is an investment need, that the most efficient solution has been selected to address this need, including the optimal trade-off between efficient operating and capital costs; and that the delivery of services is expected to be efficient. The review process for regulated expenditure is extensive; with networks and the AER publishing a range of materials for stakeholder review; the AER undertaking detailed expenditure category and project reviews including expert consultant reviews; and stakeholders being provided with a range of opportunities to review the forward forecasts and make submissions. In addition there are regulatory mechanisms in place to ensure ongoing efficiency and incentives to out-perform.

Where the AER approves a forward capital program, network businesses receive the regulated rate of return on this forecast investment. The regulated rate of return is updated annually for our transmission services, and will be updated annually for our distribution services from 1 July 2017.

Once the AER has approved revenue allowances, there are ongoing regulatory financial incentives to sustainably reduce operating and capital expenditure (through the efficiency benefit sharing scheme and capital expenditure sharing scheme) while maintaining or improving service (under the service target performance incentive schemes). There is also annual benchmarking of cost and service performance as part of the AER's benchmarking reports, based on information provided under the Regulatory Informational Notice (**RINs**) process.

TasNetworks has existing AER approved transmission and distribution revenue allowances that provide for a material upgrade to operational support systems (including asset management and works management applications) and other IT systems. In preparing for the next distribution regulatory period, TasNetworks is forecasting allowances based on an efficient operational and capital spend which takes into account the relevant costs and benefits associated with this investment.

3. The investment need

The establishment of TasNetworks in July 2014, through the merger of Transend Networks' transmission business and Aurora Energy's distribution business meant that TasNetworks inherited a number of core information applications that were at or near end of life, not supported, and heavily customised.

Due to the age and lack of functionality, both Transend and Aurora had identified the need to upgrade and consolidate information technology platforms, given an increasingly complex energy market environment, increased reporting and benchmarking requirements, the number of unsupported applications and bespoke interfaces, and opportunities to improve processes and manage risks. While identified and allowed in their revenue determinations, the antecedent businesses correctly deferred the implementations until the merger was completed.

The merger also resulted in duplicate systems and processes which posed major impediments to the delivery of effective and efficient services and cultural integration. In practical terms, this led to poor data visibility, no "single source of truth", difficulties in works planning and scheduling, excessive data entry and a plethora of manual processes and workarounds.

The key risks associated with the current IT applications and the environment can be described in the following terms:

- TasNetworks' current IT applications are ageing. A number of core applications, most importantly the asset management applications, have reached end of life and are no longer supported by vendors or resellers. Investment in these applications or their replacements over the next two years is considered urgent and essential to ensure ongoing operation;
- Internal business audits have highlighted a number of business risks which will need to be addressed as they have the potential to impact business performance, including:
    - Fragmented data sources and data integrity issues are compromising management decision making. In addition, present applications are adding significant costs to the business due to manual processes, spreadsheets and re-entry of data back in source applications.
    - Potential exposure to compliance breaches and difficulty demonstrating conformance with compliance requirements due to fragmented, duplicated and poorly accessible information; and
- Business agility, and hence service and competitiveness, is affected by process and system complexity.

Given the highly customised nature of the applications with many bespoke applications such as Procure Gate (a procurement application) the business is heavily reliant on key resources to support the use of these applications including the development of enhancements and subsequent testing. This situation heightens operational risk and increases the costs of application maintenance.

The following summarises the status of these core applications:

Asset Management/Works and Service Delivery Management

- WASP - The application is at its end of life and not supported. WASP has major functional gaps (e.g. job scheduling), and multiple versions (4 instances) with heavy customisations that are being used to manage transmission and distributions processes.

Finance

- Navision - The current version is unsupported. It does not meet business requirements for planning, budgeting and forecasting. The procurement module is not implemented and there is no integration with HR, Payroll and WASP.
- SUN - The application is not able to handle a large number of transactions and as such is not suitable for the business. Due to configuration, database capacity and manual processes/handoffs required, TasNetworks would not be able to process all financial transactions in Sun (currently 10,000 financial transactions in Sun and 200,000 in Navision per month).

Human Resources and Payroll

- PeopleSoft – The current version is supported. However, to meet TasNetworks' requirements the application would need to be re-implemented. Re-implementation is required to remove customisations and move to standard processes to better facilitate upgrades and minimise ongoing application support costs.
- Aurion - The current version is supported. However the application is considered unsuitable for the business due to a lack of critical functionality e.g. Self Service, performance development.

Procurement

- Procure Gate is a bespoke application that is maintained and supported by internal resources. Procure Gate is not integrated and is manually intensive.

Governance Risk and Compliance (GRC)

- RMSS (Risk Management Software System), used for incident management, is maintained and supported by internal resources. RMSS is not integrated and is manually intensive. The functionality required to meet TasNetworks' future requirements will require additional bespoke development, such as Occupational Health and Safety (**OH&S**).
- Kairosis a standalone solution that does meet business requirements for incident management, field based OH&S compliance and risk information and workflows.

Current book value is shown in the table below:

LEGACY APPLICATIONS	Book Value as at 30/06/15
Aurion	$3,830
Condemned Private Poles	-
DAIS	-
Navision	$38,113
POW Excel model & SDW Tool	-
Procuregate	$5,719
Procuremax/Contractmax	-
RMSS	$46,762
SmartGen	-
IPOS Procurement	-
WASP	$19,697

Table 1: Legacy application book value

In order to address these issues, TasNetworks embarked on a strategy that would support a major business transformation initiative, primarily focused on transitioning its diverse business processes and technologies to an integrated system platform. Importantly it will underpin our **one business** strategic initiative. This strategy is focused on providing the best possible services to customers at the least cost, least risk, using seamless, integrated and contemporary technologies. With these requirements in mind, the business commenced a process of exploring the different options available.

3.1 IBS Phase – Option Analysis

Five options were considered during the IBS phase:

- **Option 1 (Do Nothing)** - This option is based on running the existing Finance, HR/Payroll, Procurement, GRC and Asset Management/Works and Service Delivery applications to failure.
- **Option 2 (Retain & Re-implement)** – Select a preferred option from the existing application suite. Re-implementing contemporary versions of the preferred applications, reversing customisations and re-engineering business processes based on inherent standardised / best practice processes of the application.
- **Option 3 (Retain and Re-implement, Replace WASP)** – Select a preferred option from the existing application suite with the exception of WASP (for Asset Management and Works & Service Delivery). Re-implementing contemporary versions of the preferred applications, reversing customisations and re-engineering business processes based on inherent standardised / best practice processes of the application. WASP is to be fully replaced with a best of breed Enterprise Asset management solution.

- **Option 4 (Replace all with BOB)** – Implement a full BOB solution.
- **Option 5 (Replace all with ERP)** – Implement a full ERP solution.

3.1.1 Options Selection Principles

To guide the option selection process, the following principles were approved by Steering Committee. As the TasNetworks' Technology Strategy was in development at the time, these principles were also designed to support that strategy.

#	Principle	Rationale
1	Common Use Applications	Development of applications used across the enterprise is preferred over the development of similar or duplicative applications which are only provided to a particular organisation.
2	Configuration before customisation	Product functionality should be modified through configuration rather than software development.
3	Ease of Use	Applications should be easy to use. The underlying technology should be transparent to users, so they can concentrate on tasks at hand.
4	Interoperability	Software and hardware should conform to defined standards that promote interoperability for data, applications and technology.
5	Application Documentation	Enterprise applications will be documented, both internally and externally.

Alignment of the preferred option with the TasNetworks' Technology Strategy is discussed at Section 5.2.

3.1.2 Options Assessment

The information gathered to inform the options analysis included:

- Conducting 43 workshops across the business to develop a set of business and technical requirements that could be used to assess the five options. These requirements were developed in consideration of the following key elements;
    - **Strategic** - viability of the solution to support TasNetworks' business objectives (10 years and beyond).
    - **Functional** – the ability of the solution to support current and future process requirements with no customisations to better facilitate upgrades and minimisation of ongoing application support costs.
    - **Architecture** – all functional and technical components are designed and developed with the same standards and principles.
    - **Data** - Data is maintained within the application as compared with the operation of the existing applications that entails data being manipulated outside the application. This feature enhances the integrity of TasNetworks' data and maintains the application to be the single source of the truth.
    - **Integration** – the ability of the solution to facilitate information seamlessly across a business process.
    - **Implementation Risk–** track record of success.

- **Support** – availability of market resources and service providers to support the solution post implementation.
- **Cost** – The least cost solution that meets the above.

- To assist in assessing the viability of the Option 1, Option 2 and Option 3 (Retain applications component), information was sought from the incumbent vendors. These included; Oracle (PeopleSoft), Microsoft (Navision), EMS (WASP) and the use of our internal experts for bespoke applications (e.g. Procure Gate).
- In September 2014, the IBS project went to market with a Request for Information (**RFI**) to obtain information to assist in the assessment of Option 4 and Option 5. The market engagement process delivered 12 responses from a cross section of local and international vendors. This information was also used to inform the Option 3 which includes the implementation of a BOB solution to replace WASP.

As part of our governance arrangements in support of the Business Case, KPMG was engaged to provide quality assurance review services, including the review of the financial model and Option 3 BOB Retain and Re-implement, Replace WASP v Option 5 ERP.

3.1.3 Option 1 (Do Nothing)

The Do Nothing option is based on running TasNetworks' existing applications to failure. This scenario assumes the applications will be maintained as per the existing maintenance regime. Given the age, complexity and highly customised nature of the existing applications there is a likely risk that one or many of the applications may experience a major outage. In the case of an outage the ability to fix the issue in a timely manner is a major concern for the business which may result in reputational damage or customer impact as a result of not being able to deliver required services. Noting, WASP is at end of life and unsupported; Navision is highly customised with limited documentation and the support capability for these applications is centred on a few key internal resources.

The consequence of running TasNetworks' existing applications perpetuates inefficiencies and risks highlighted in the investment need. As such there have been no benefits attributed to the modelling of this option.

The risk profile of Option 1 was considered to be well beyond TasNetworks' approved risk appetite, and was not aligned with the guiding principles. As such no further assessment was undertaken.

KPMG accepted as reasonable TasNetworks' view that Do Nothing is not an option (Refer p8, Appendix H).

3.1.4 Option 2 (Retain & Re-implement)

The retain and re-implement option is based on:

- Selecting a preferred application from the duplicate, Finance, HR/Payroll, Procurement, GRC and Asset Management/Works and Service Delivery applications.
- Re-implementing contemporary versions of the preferred applications, reversing customisations and re-engineering business processes based on inherent standardised / best practice processes of the applications.

The application suite selected for this option included; WASP, Navision and PeopleSoft. The rationale to exclude SUN and Aurion as the preferred Finance and HR/Payroll applications is as follows:

- SUN - The application is not able to handle a large number of transactions and as such is not suitable for the business.
- Aurion - unsuitable for the business due to lack of critical functionality e.g. Self Service, performance development etc.

This option would provide some level of benefit as a result of re-implementing Finance, HR/Payroll, Procurement and GRC. However, on the basis that WASP is at end of life, not supported and has no upgrade path, this option was not considered viable. Noting Option 3 included the replacement of WASP and the retention of preferred applications for Finance, HR/Payroll, Procurement and GRC, accordingly Option 3 was investigated more extensively.

3.1.5 Option 3 (BOB Retain and Re-implement, Replace WASP)

The retain and re-implement, replace WASP option is a BOB option limited to utilising existing applications and replacing WASP. It is considered to be the lowest cost BOB option on the basis that the preferred existing Finance, HR/Payroll, Procurement and GRC applications are retained. Contemporary versions of these applications would be re-implemented, reversing customisations and re-engineering business processes based on inherent standardised / best practice processes. The Asset Management/Works and Service Delivery application (WASP) is replaced (based on its end of life status) with a best of breed Asset Management solution.

The modelling of this option was extensive and used information from the RFI, existing vendors and internal resources to inform the analysis. Responses from the RFI process include submissions from [redacted] who proposed a BOB solution, with Asset Management/Works and Service Delivery applications such as Ellipse and Maximo/Primavera respectively. Based on the retention of PeopleSoft and Navision the following scenarios were modelled:

Core Business Processes	Scenario 1	Scenario 2
Asset Planning, Operation and Lifecycle Management	Ellipse	Maximo & Primavera
Works Management and Service Delivery	Ellipse	Maximo & Primavera
Procurement and Supply Chain Management	Ellipse	Maximo & Navision
Financial and Performance Management	Navision	Navision
Human Resource Management and Payroll	PeopleSoft	PeopleSoft
Governance, Risk and Compliance Management	Ellipse	Maximo

The above scenarios were assessed based on the criteria noted above with the following observations.

Evaluation Criteria	Assessment	Requirements - Fit High, Med, Low
Strategic	All applications are supported by large and reputable companies with mature product road maps.	**High**
Functional	• Both Ellipse and Maximo applications met TasNetworks' functional requirements. • Navision did not meet a number of future business requirements. To meet these requirements Navision would need to be customised. • To meet TasNetworks HR/Payroll requirements PeopleSoft will need to be re-implemented.	**Medium**
Architectural	Each application is robust from an architectural perspective. However all applications are designed and constructed on different architectural principles. Accordingly, the cost to maintain the suite of applications is high due to these variances, including increased infrastructure, middleware (used for integration) and the skills and knowledge required to manage multiple platforms	**Medium**
Data	Whilst bespoke integration can be developed to facilitate the flow of data between each application the native integration features of an ERP are more robust than the BOB alternative	**Medium**
Integration	The applications are not integrated and require third party tools and expertise to build the required integrations to facilitate the flow of data between each application.	**Low**
Implementation	The implementation of a BOB based (Option 3 configuration) business transformation project was	**Low**

Risk	considered to be high risk (as compared to the ERP alternative). These risks have been noted in 3.1.5.1.	
Support	The cost of supporting disparate applications is higher when compared to a homogeneous ERP platform. The additional costs arise in the following areas: • Testing effort to apply patches and upgrades • Additional skills to support many applications and third party integration tools • Vendor Management. Liaison and management of multiple vendor relations and contracts.	**Medium**

The implementation of this option will deliver process efficiencies and benefits. However compared to Option 5 ERP the efficiencies and benefits are significantly lower. The financial summary indicates there is $25.9M over 10 years in financial benefits between the two options (refer section 3.1.8 below). This difference is related to functional, architectural, data and integration elements.

3.1.5.1 Risk Premium

To effectively assess this option, a risk premium was applied which reflected the following key implementation and solution viability risks and TasNetworks acting as the Systems Integrator. KPMG reviewed work undertaken on this option compared to ERP and acknowledged that a risk premium is appropriate for BOB solutions (Ref p10, Appendix H).

Implementation Risk

- **Commercial:** The implementation of the BOB option was based on TasNetworks acting as the Systems Integrator, as compared with the ERP option, which was based on the engagement of a Prime Contractor for Systems Integration. The benefit of engaging a Systems Integrator is that the risk of delays can be mitigated through a commercial Contract which includes fixed costs and damages conditions. These provisions cannot be achieved in a TasNetworks-led engagement without considerable effort and expense.
- **Experience:** A TasNetworks-led engagement across a range of applications may give rise to more extensive application customisations and delays due to inexperience in Systems Integration. In contrast, an experienced Systems Integrator implementing an ERP platform will ensure that the application has minimal customisation and that the associated business process changes are facilitated.

Solution Viability

- **Interfaces:** The BOB solution requires TasNetworks to build and maintain 20 additional, bespoke, complex interfaces between each of the disparate BOB applications and retained legacy applications that would not be required for an ERP solution. . This difference affects the cost to maintain the overall solution, as upgrades and interface changes need to be managed and coordinated, which increases the risk profile due to the complexity and customisation.
- **Configuration:** the level of effort necessary for a BOB solution is higher than for an ERP as the applications have to be configured to align to end to end processes and

substantial integration is required to ensure the applications can work together effectively.

- **Testing:** Since BOB applications are not natively integrated, the testing services are more complex, involving more time and effort to guarantee that data is flowing properly and workflows and notifications are working as intended.
- **Enterprise Design**: There are efficiencies that cannot be reached or are harder to achieve when designing processes within BOB applications, e.g. mobility and scheduling, than in an ERP, where you are dealing with just the one vendor.
- **Resource and Contract Management:** In an ERP environment, the Systems Integrator allows you to interact with a single vendor, under a single contract, with one scope of works, whereas TasNetworks would be the Systems Integrator in this option and would need to work with multiple vendors, multiple contracts, and multiple scopes of work.

The process undertaken to assemble the costs of implementing Option 3 BOB (Retain and Re-implement, Replace WASP) included, information sourced from the RFI (WASP replacement) and direct negotiations with the suppliers of the PeopleSoft and Navison applications.

Whilst this process confirmed the costs to implement each application, the overall costs excluded a level of contingency to mitigate the identified risks above. Accordingly a commercial judgement was made that a risk premium to be applied to Option 3 BOB Retain and Re-implement, Replace WASP of 30%.

This was further informed through broader industry experts including articles such as *Kearney, A.T. 2012. "Is it the beginning of the end for Best of Breed"*, which states that cost for implementation of BOB v ERP can be 30% to 60% higher due to increased product and integration complexity.

This benchmarking gave management confidence that the 30% risk premium applied to Option 3 BOB Retain and Re-implement, Replace WASP was realistic and reasonable.

3.1.6 Option 4 (Replace all existing applications with BOB)

This option involves implementing a full BOB, which is replacing all existing applications with a new Best or Breed solution.

The RFI solicited information to assist TasNetworks to determine the best platform to replace the in scope applications (WASP, PeopleSoft, Aurion, SUN and Navision). Whilst these responses did not provide the entire commercial construct, the information allowed TasNetworks to develop this option. TasNetworks received a response from [redacted] proposing a BOB solution, which included:

[redacted]

- Asset Management/Works and Service Delivery - Maximo, Primavera
- Finance - Oracle
- HR/Payroll - Oracle

As a comparison, the TIBS RFP received a BOB proposal from [redacted], which included:

[redacted]

- Asset Management/Works and Service Delivery - Maximo
- Finance - JDE
- HR/Payroll - PeopleSoft

Option 4 was modelled on the following scenarios.

Core Business Processes	[redacted]	[redacted]
Asset Planning, Operation and Lifecycle Management	Maximo & Primavera	Maximo & Primavera
Works Management and Service Delivery	Maximo & Primavera	Maximo & Primavera
Procurement and Supply Chain Management	Maximo & Oracle	Maximo & JDE
Financial and Performance Management	Oracle	JDE
Human Resource Management and Payroll	Oracle	PeopleSoft
Governance, Risk and Compliance Management	Maximo	JDE

Whilst the proposals from [redacted] are different from a product perspective they are both BOB solutions. The primary difference between Option 4 and Option 3 is the implementation approach. Option 4 is based on a Systems Integrator being responsible for implementing a BOB solution as compared to TasNetworks acting in the Systems Integrator role in Option 3. This difference is reflected in the evaluation rating. Whilst responsible for overall implementation, no vendor in this option offered to warrant the overall solution, which is what was achieved under the recommended ERP solution.

The following observations were made with respect to this scenario and the evaluation criteria.

Evaluation Criteria	Assessment	Requirements - FIT High, Med, Low
Strategic	All applications are supported by large and reputable companies with mature product road maps.	**High**
Functional	• The Maximo and Primavera applications met TasNetworks' functional requirements. • To meet TasNetworks' HR/Payroll requirements PeopleSoft will need to be re-implemented.	**Medium**
Architectural	Each application is robust from an architectural perspective. However all applications are designed and constructed on different architectural principles. Accordingly, the cost to maintain the suite of applications is high due to these variances.	**Medium**
Data	Whilst bespoke integration can be developed to facilitate the flow of data between each application the native integration features within an ERP are more robust than the BOB alternative	**Medium**
Integration	The applications are not integrated and require third party tools and expertise to build the required integrations to facilitate the flow of data between each application.	**Low**
Implementation Risk	The implementation of a BOB business transformation project was considered to be high risk (as compared to the ERP alternative) based on the Solution Viability points noted in 3.1.5.1.	**Medium**
Support	The cost of supporting disparate applications is higher when compared to a homogeneous ERP platform. The additional costs arise in the following areas: • Testing effort to apply patches and upgrades • Additional skills to support many applications and third party integration tools • Vendor Management. Liaison and management of multiple vendor relations and contracts.	**Medium**

Option 4 was scored similarly to Option 3. However the notable difference between the two options was the cost and risks associated with the different implementation approaches.

When comparing these options the 30% risk premium was applied to Option 3 to address the differences in implementation risks between a TasNetworks Systems Integration as compared to a Prime Contractor Systems Integration. No risk premium was applied to Option 4 based on a prime contractor acting as the system integrator. This is based on the fact that information sourced on Option 4 included system integration costs for the applicable solutions including a contingency to mitigate their implementation risks.

Based on this comparison, Option 4 was more expensive than Option 3, even when the risk premium was applied to Option 3. Although there may be additional functionality available through Option 4, even when this additional functionality is considered, Option 3 was still the least cost BOB option which was carried forward for further analysis and the review undertaken by KPMG.

3.1.7 Option 5 (Replace all existing applications with an ERP)

This option involves implementing a full ERP

The RFI solicited information to assist TasNetworks determine the best platform to replace the in scope applications (WASP, PeopleSoft, Aurion, SUN and Navision). TasNetworks received 12 responses proposing ERP solutions, these included:

It is notable that of the 12 RFI responses received, 6 were based on SAP.

Subsequent to the RFI, TasNetworks issued an RFP to the market which resulted in the three shortlisted vendors proposing an SAP based solution (Refer section 4). Based on responses the following scenario was modelled.

Core Business Processes	ERP Scenario
Asset Planning, Operation and Lifecycle Management	SAP
Works Management and Service Delivery	SAP
Procurement and Supply Chain Management	SAP
Financial and Performance Management	SAP
Human Resource Management and Payroll	SAP
Governance, Risk and Compliance Management	SAP

The following observations were made with respect to this scenario and the evaluation criteria.

Evaluation Criteria	Assessment	Requirements - FIT High, Med, Low
Strategic	SAP is a Tier 1 ERP solution used by Australian Utility business and through the world.	**High**
Functional	Meets Requirements	**High**
Architectural	Meets Requirements	**High**
Data	Meets Requirements	**High**
Integration	Meets Requirements	**High**
Implementation Risk	Implementation risk can be mitigated through contracting commercial and legal terms with a Systems Integrator with many years of implementation experience and SAP knowledge.	**High**
Support	The market for SAP skills is large and therefore there are many opportunities to recruit or outsource support related activities. The benefit of implementing one homogeneous platform is that TasNetworks only needs to invest in developing skills in one architecture verses many.	**High**
Cost	Refer to the cost analysis.	

3.1.8 Cost Analysis of Option 3 BOB Retain and Re-implement, Replace WASP and Option 5 ERP

The rationale for this is as follows:

- Option 1 and Option 2 were not considered viable.
- Option 4 was also discounted on the basis that Option 3 represented the least cost BOB option. Even with potential additional functionality/value available through Option 4, costs associated with an implementation approach using a systems integrator responsible for the solution outweighed benefits of the additional functionality

- Option 3 was selected as the preferred BOB solution on the basis of:
    - Implementing Navison, PeopleSoft, Procure Gate and RMSS was considered a workable solution for Finance, HR/Payroll, Procurement and GRC.
    - The cost of implementation being less than Option 4 and operating cost assessed to be the same.

The lifecycle cost of a major systems program consists of two key elements;

1. Implementation (Capex)
2. Post Implementation Support (Opex)

The following table summarises the capital costs for Option 3 BOB compared to the Option 5 ERP. Given the number of data sources, the Option 3 BOB has been expressed as a range.

CAPEX *(nominal dollars)*	**Option 3 - $M**	**Option 5 - $M**
Enterprise Design	7.6 - 9.3	11.4
Release 1 – Finance, Procurement & Business Intelligence	25.2 - 30.8	19.2
Release 2 – Asset and Works Management, HR/Payroll, GRC	22.4 – 27.3	21.0
Data Cleansing	1.3 - 1.5	1.0
Hardware	1.4 - 1.7	1.0
Software	4.1 - 5.0	4.6
Total	**61.9 – 75.6**	**58.2**

The analysis indicates that the cost to implement Option 3 BOB solution is in the range of $61.9 million to $75.6 million which includes the risk premium applied to this option. This compares to the cost to implement the ERP option of $58.2 million. The costs of the ERP option have been developed through the extensive RFP process and subsequent commercial negotiations with a higher degree of price confidence.

The following information specifies the lifecycle costs including the capital and operational expenditure for Option 3 BOB and Option 5 ERP over a 10 year lifecycle. The capital cost for the BOB solution has been expressed as a range ($61.9 - $75.6M). The cost analysis table below has utilised the lowest end of the range for comparative purposes to align with KPMG's assessment that the top of the BOB range is overly prudent at the higher end of the range. At this end of the BOB range the probability rating is considered to be less certain and estimated to be P50,[1] compared to the ERP which is P95.

The Capital Expenditure of Option 3 BOB and Option 5 ERP have been profiled over the same implementation timeframe to minimise risk and meet business requirements associated with replacing critical applications. The rationale of this approach is to ensure:

[1] P50 & P95 relate to 50% and 95% probability based on the Monte Carlo model for probability simulation. This model is a technique used to understand the impact of risk and uncertainty in financial and forecasting models

- The business benefits start accruing at the same time,
- Extending the duration of one solution over another extends the life of the temporary interfaces, workarounds, perpetuates inefficiencies and heightens business risk.

Option 3 – Implementation and Post Implementation

BOB Cash flows	Financial Year - $M - nominal										
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	**Total**
Expenditure	**(28.8)**	**(29.8)**	**(22.2)**	**(6.2)**	**(6.3)**	**(6.4)**	**(6.5)**	**(6.6)**	**(6.8)**	**(6.2)**	**(125.7)**
Capex	(22.1)	(23.6)	(16.1)	-	-	-	-	-	-	-	(61.9)
Opex	(6.7)	(6.2)	(6.0)	(6.2)	(6.3)	(6.4)	(6.5)	(6.6)	(6.8)	(6.2)	(63.9)
Reduction in other costs (financial benefits)	**0.4**	**4.3**	**4.8**	**4.4**	**4.8**	**4.8**	**4.8**	**4.8**	**4.8**	**4.8**	**42.5**
Net Outlay associated with BoB	**(28.4)**	**(25.5)**	**(17.4)**	**(1.8)**	**(1.5)**	**(1.6)**	**(1.7)**	**(1.9)**	**(2.0)**	**(1.4)**	**(83.2)**
NPV based on pre-tax WACC of 6.8%	**($71.4M)**										

Option 5 – Implementation and Post Implementation

ERP Cash flows	Financial Year - $M - nominal										
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	**Total**
Expenditure	**(27.7)**	**(26.5)**	**(17.7)**	**(3.5)**	**(3.6)**	**(3.6)**	**(3.7)**	**(3.7)**	**(3.8)**	**(3.8)**	**(97.7)**
Capex	(21.8)	(22.1)	(14.3)	-	-	-	-	-	-	-	(58.2)
Opex	(5.9)	(4.5)	(3.4)	(3.5)	(3.6)	(3.6)	(3.7)	(3.7)	(3.8)	(3.8)	(39.5)
Reduction in other costs (financial benefits)	**0.6**	**4.9**	**5.9**	**6.7**	**7.6**	**8.0**	**8.2**	**8.5**	**8.8**	**9.1**	**68.4**
Net Outlay associated with ERP	**(27.1)**	**(21.6)**	**(11.8)**	**3.2**	**4.0**	**4.4**	**4.5**	**4.8**	**5.0**	**5.3**	**(29.3)**
NPV based on pre-tax WACC of 6.8%	**($34.5M)**										

The above cost analysis highlights some of the key financial differences between each option.

- Operating Costs of Option 3 BOB are $24.4M more expensive over 10 years than the ERP alternative. This cost difference is due to the management of multiple disparate applications and the bespoke integration of the BOB solution. The cost differences include additional effort to develop and test software patches and enhancements, and the ongoing management of multiple vendors and their respective contracts.
- Option 3 has been calculated on the lowest end of the range, which includes a 30% risk premium and is estimated to be P50 probability. ERP has been calculated at a P95 probability that has been developed through the extensive RFP process and subsequent commercial negotiations with a higher degree of price confidence. Based on this analysis, there is a higher degree of confidence in the NPV calculations for ERP.

- Income/Benefits – The benefits from the BOB option are estimated to be $25.9M lower than the ERP option over 10 years. This is due to the seamless integration of an ERP solution which provides TasNetworks with a greater opportunity to reduce costs and establish long term process efficiencies. (Refer to section 6.4 for benefits definitions). Some of the key differences between ERP and BOB include:
    - **One-stop-shop**: ERP - further configuration and change requests do not require involvement of multiple vendors, avoiding extra costs.
    - **Legacy applications**: BOB involves extra environments (e.g. testing, development and production), applications interfaces, support and infrastructure to manage multiple applications.
    - **Human Resources**: BOB provides less efficiencies in timekeeping due to the bespoke integration.
    - **Scheduling**: Lack of native integration in BOB, between PeopleSoft and Maximo compromises field operations performance.
    - **Complexity**: Lack of system interoperability and scalability for BOB requires significant resources to maintain, update and transfer information across multiple applications landscapes.
    - **Data duplication**: Information is duplicated in multiple applications for BOB. This may result in problems with data consistency and integration and constant data cleansing is necessary.
    - **Efficiency**: Efficiencies across an ERP solution will provide full end to end process efficiency and more effective management of assets, which is unlikely to be obtained through BOB. Whilst a BOB Asset Management system will provide benefits, when an Asset Management is fully integrated with supporting ERP Functions, effectiveness of assets can increase through accurate and seamless:
        - cost planning for work orders;
        - single entry of time and materials against work orders;
        - allocation of maintenance costs to assets;
        - costing of labour and allowances; and
        - costing of materials used.
- Based on the above, the NPV for Option 3 BOB, even when calculated at the lowest end of the cost range, and Option 5 ERP reflect the reduced operating costs of the ERP solution and the additional benefits compared to BOB.

3.1.9 Option Recommendation

TasNetworks has analysed five options to address the core application issues and business requirements that were identified in the investment need. Financial analysis was undertaken on the least cost BOB option (Option 3) and ERP (Option 5). The implementation of an ERP solution is recommended based on:

- ERP is the least cost option that meets TasNetworks' business requirements and risk appetite – almost half the risk-adjusted NPV of the least cost BOB option;
- ERP will deliver the highest level of business benefits;
- ERP operating costs are lower than BOB;
- ERP will provide a solid foundation for TasNetworks to achieve its strategic goals and is aligned with the IT Strategy (refer Appendix E – Battiston Consulting letter);
- Engagement of a Systems Integrator to implement an ERP will provide the ability for TasNetworks to mitigate key implementation risks through commercial and legal negotiations; and
- ERP provides the best fit across the evaluation criteria.

An ERP will deliver the required essential investment to replace our existing IT applications that support many of TasNetworks' core processes.

This analysis supports the Board's endorsement of the TIBS Business Case being developed on the implementation of an ERP. KPMG's independent assessment supports this recommendation (Refer Appendix H).

4. Business Case Phase – ERP

The TIBS Business Case phase commenced in February 2015. The objectives of the Business Case phase were to:

- Develop the detailed requirements for the solution and the implementation approach.
- Determine the preferred support model for the proposed solution.
- Select the preferred software solution and systems integrator (**SI**) and negotiate pricing through a request for proposal (**RFP**).
- Develop financial and risk management models.
- Develop a Business Case based upon the selected ERP solution and SI responses.

A series of business requirements workshops were conducted across the business to identify and detail the functionality that stakeholders required in an ERP solution. These requirements, which reflected the original functionality defined in the IBS phase, formed the basis of the TIBS Request for Proposal (**RFP**), which was issued to market on 31 March 2015 through our tendering and contracts team.

The RFP was downloaded from TenderLink by 58 vendors and TasNetworks received eight formal tender responses by the 7 May 2015 deadline, of which five compliant responses proceeded to the next phase. Shortlisting reduced the number of vendors to three, being NTT Data, UXC Oxygen Pty Ltd and Wipro.

To ensure the most appropriate Prime Contractor was selected, a rigorous evaluation process was undertaken based upon written responses to the RFP. The offerings of all three vendors were then examined comprehensively by way of:

- Scripted demonstrations, which asked each vendor to demonstrate how their solution met TasNetworks' requirements;
- Reference checks, which sought to establish how well the vendors performed in previous implementations;
- Moderation workshops, in which TasNetworks team members rated each vendor's written response to requirements documented in the RFP; and
- Commercial and legal discussions led by a team from TasNetworks and supported by external advisers.

(Refer to Appendix A for the RFP (Memorandum with Summary of Overall Results and Methodology)).

The table below summarises the results of the evaluation across the key criteria of Functional, Commercial and Tasmanian Industry Participation Plan (**TIPP**). The weighting of each evaluation category, and the performance of each shortlisted vendor against these criteria, is also displayed.

Table 2: Evaluation results for three short-listed vendors

The final decision was to select UXC Oxygen Pty Ltd as the preferred Prime Contractor based on its implementation costs capability, capacity and partnership fit to the business.

5. Proposed ERP Solution

An Enterprise Resource Planning solution provides a holistic, seamlessly integrated technology platform founded on best-practice business processes (including those that specifically relate to the electricity industry). In implementing an ERP a number of elements are required. These include:

- Software licences and maintenance – Licences for the application, including a path to future upgrades, and ongoing software support;
- System integration services – The ability to implement the product to TasNetworks' future way of working, reflecting industry best-practice processes;
- Application support services – Ongoing enhancement of business processes and application to meet future business needs; and
- Infrastructure support services – The underlying technology e.g. hardware servers to support the ERP platform.

This RFP process has resulted in SAP being proposed as the ERP software provider and UXC Oxygen Pty Ltd as the preferred Prime Contractor to provide the services indicated above.

During the Business Case phase, the project team investigated different approaches to implementing the solution. These are described in the following sections, along with the scope of implementation and the approaches to manage implementation risks.

5.1 ERP Scope

The Request for Proposal (**RFP**) in March 2015 defined the proposed scope for the project as follows:

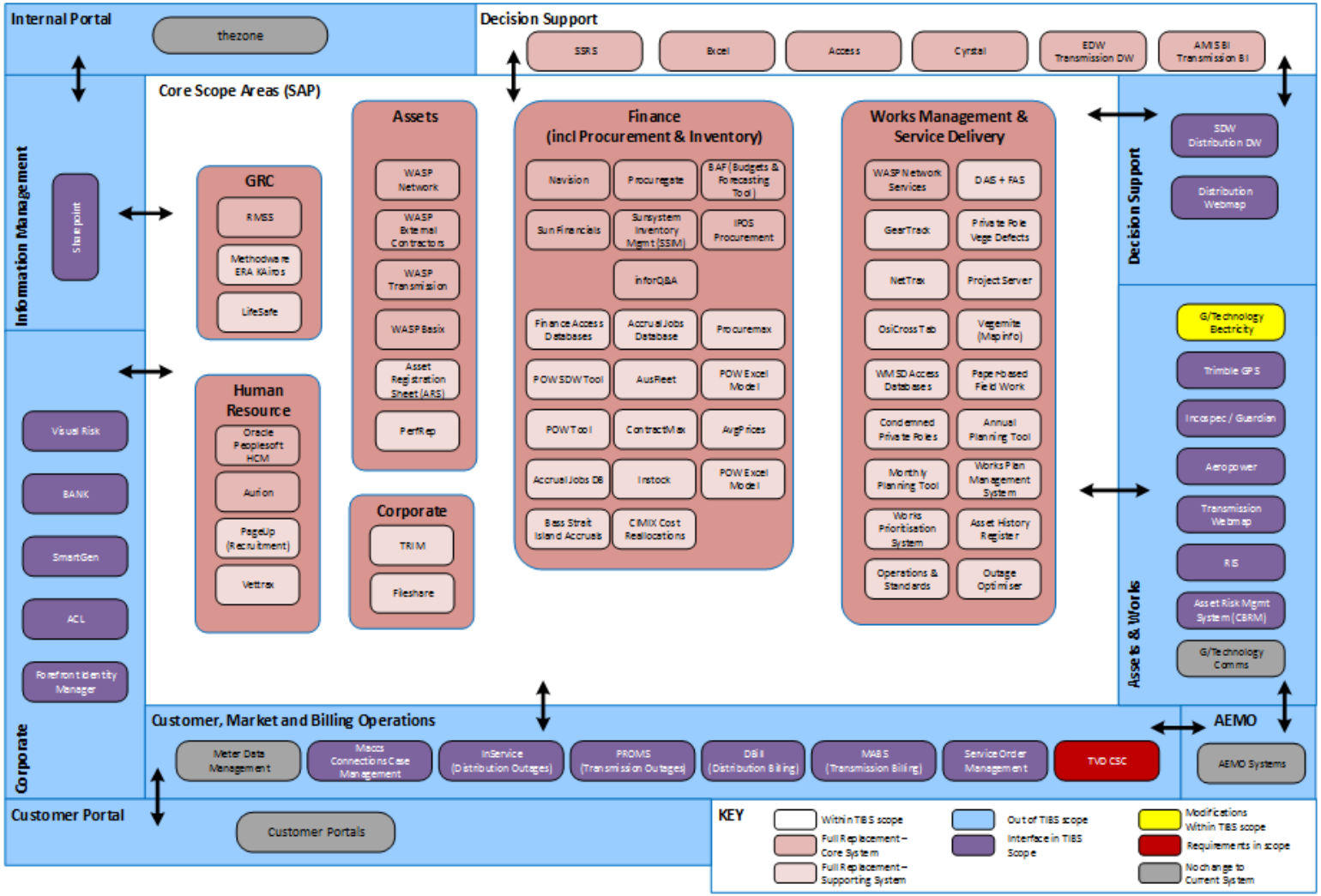
- Financial Management;
- Governance, Risk and Compliance Management;
- Human Resource Management and Payroll;
- Procurement and Supply Chain Management;
- Asset Management; and
- Works and Service Delivery.

Asset Management covers Asset Planning, Operations, Maintenance and Lifecycle Management, including Project Management.

The scope outlined covers the core business processes needed to meet TasNetworks' strategic objectives. Business stakeholders described the overwhelming majority of requirements that were scoped and priced as mandatory, in their view, to deliver the functionality required. The alignment of these requirements with the capabilities specified in the proposed solution suggests that this will be a pragmatic implementation that delivers best practice in an efficient and effective way.

The figure below shows the major applications which will be replaced by the ERP. In all, at least 60 applications will be retired (the final number will be confirmed during Enterprise Design). This diagram demonstrates the significant footprint of the ERP across the organisation.

Figure 1: Scope of application replacement



The following should be noted regarding Figure 1:

- Sharepoint (TasNetworks' current document management system) – TIBS will provide the interface between the ERP and Sharepoint.
- Business Intelligence (**BI**) – TIBS will provide the BI toolset for the processes covered by the project scope, including development and design of analytics and a platform to ensure cohesive BI related to these processes. Other areas of the business will be able to utilise the tool for BI as the need arises.
- Applications that are outside the scope of TIBS include customer, marketing and billing applications.
- Interfaces – It was identified that 24 interfaces will need to be built between the ERP and remaining legacy applications. This number includes 11 temporary interfaces that will only be required until Release 2 is fully implemented. The Business Case has estimated the likely cost of these interfaces based on assumptions of the likely degree of complexity. Throughout Enterprise Design further investigations will be performed to refine the scope of this work, with a view to ensuring the interfaces built are fit for purpose and cost effective.

5.2 Alignment with TasNetworks' Technology Strategy

The review of TasNetworks' Information Technology Strategy, currently being facilitated by Battiston Consulting, has recognised the need for an industry-specific ERP as the core to the future ICT strategy. The deployment of the ERP will enable further development in systems to support customer initiatives, efficient paperless field activities and the management of data to enable big data analysis of all aspects of TasNetworks operations in the future. The strategy development process has identified a number of initiatives, which align with the introduction of an ERP. These include:

- **Reducing the number of applications that duplicate business processes:** The ERP will remove duplication of HR, Finance, and Asset Management Systems.
- **Reducing duplication of data:** The ERP will remove the need to duplicate data associated with business processes within the scope of the ERP.
- **Reducing the number of bespoke interfaces requiring development and support:** The ERP as planned will enable the decommissioning of some 120 dedicated servers and applications. The ERP is planned to provide a service bus as the integration tool and will dismantle the hard connectivity required between current applications, simplify integration of new functionality and the decommissioning of legacy applications while reducing the need to develop and support bespoke interfaces.
- **The introduction of a TasNetworks-wide data repository:** The ERP implementation includes the establishment of a data repository, initially to store and manage data associated with the ERP processes, but which is expandable to include data from other processes throughout TasNetworks and moving the ICT environment towards an enterprise data architecture supporting whole-of-business data analysis.
- **The Introduction of a TasNetworks-wide business intelligence tool**, to allow integrated reporting and analysis of data from any TasNetworks process: The ERP business

intelligence tool has the ability to undertake analysis of data within the ERP, but also across other data repositories used elsewhere in TasNetworks, providing consistent whole-of-business tools for analysis and reporting.

- **The addition of functionality within the application stack for the ERP:** An industry-specific ERP is capable of additional bolt-on functionality with limited integration requirements. Currently the leading providers consider field, mobility and CRM solutions as core future functionality for TasNetworks.

The TasNetworks Technology Strategy strongly supports the introduction of an industry-specific ERP to provide core capabilities for TasNetworks today and for the future. Appendix E comprises a letter from Battiston Consulting, dated 25 August 2015: "ERP Deployment: Best of Breed versus Integrated Single Supplier" providing this context.

5.3 ERP Software - SAP

The ERP software application suite proposed by UXC Oxygen Pty Ltd (and the other unsuccessful shortlisted vendors) was SAP. UXC Oxygen Pty Ltd's RFP response, and subsequent solution demonstration, makes it clear that the SAP solution provides a strong fit across the business for all functions. It will enable TasNetworks to work with a leading global software company, with many energy and utility customers across Europe, North America and Australasia.

The SAP ERP solution is a scalable platform that supports end-to-end business processes, based on a modular approach to implementation that will help TasNetworks to realise best practice across the organisation. Components of the SAP platform are used by most electricity network businesses in Australia. Customers in the Australian electricity transmission and distribution industry include:

- Queensland:
  - Ergon Energy
  - Energex
  - Sparq Solutions
  - Powerlink
- New South Wales:
  - Ausgrid
  - Essential Energy
  - Endeavour Energy
- Victoria:
  - Jemena
  - United Energy Distribution
  - Ausnet Services
  - CitiPower / Powercor

- South Australia:
  - ElectraNet
  - SA Power Networks
- Western Australia:
  - Atco Gas
  - Western Power

A snapshot of the functionality that will be delivered to TasNetworks based on the proposed SAP footprint includes:

- A consolidated single-platform view of all project-related transactions, irrespective of source;
- Flexible portfolio and program structure;
- Integration between technical object structure and asset accounting, involving short-term and long-term works and capital planning in a single solution;
- Pre-integrated staffing, timesheet, project and financial management processes;
- Efficient strategic and transactional procurement processes that are integrated with Finance to meet commitment and accrual accounting requirements; and
- Asset settlement processes which update both financial and physical details.

The business has been advised by K&L Gates that the licence terms agreed between the business and SAP are consistent with market norms in negotiations with SAP. SAP terms are generally not negotiable on issues around key risk issues of intellectual property, warranty, liability and support service levels. However, negotiations have resulted in amendments that relate to the long-term use of the software and corporate actions by the business that might impact licensing such as joint ventures, divestments and other "machinery of government" changes that TasNetworks might be subject to in the long run. Further, the business has negotiated "flex", price holds and "remix" clauses for the licensed software, which will provide future flexibility in relation to the SAP products. For example: they provide the ability for TasNetworks to change the composition of the software bill of materials during the course of implementation in order to limit the amount of "shelf ware"[2] and derive maximum benefit for the business.

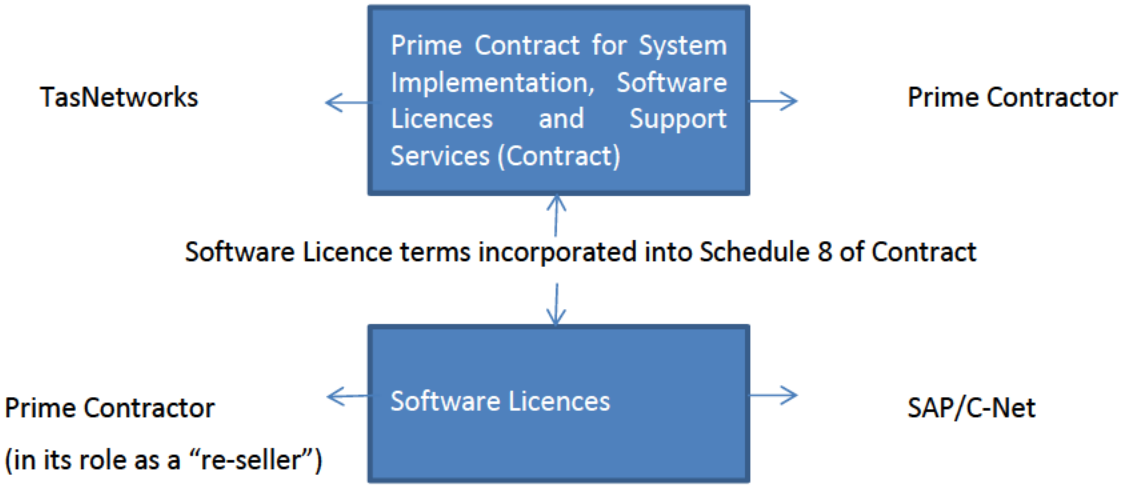
K&L Gates' summary letter is set out in Appendix G.

[2] **"Shelf ware"** is a phrase that is commonly used in the enterprise and corporations where volume license prices are given and the corporation purchases more software than really needed to obtain that discount.

5.4 Business Case Prime Contractor – UXC Oxygen

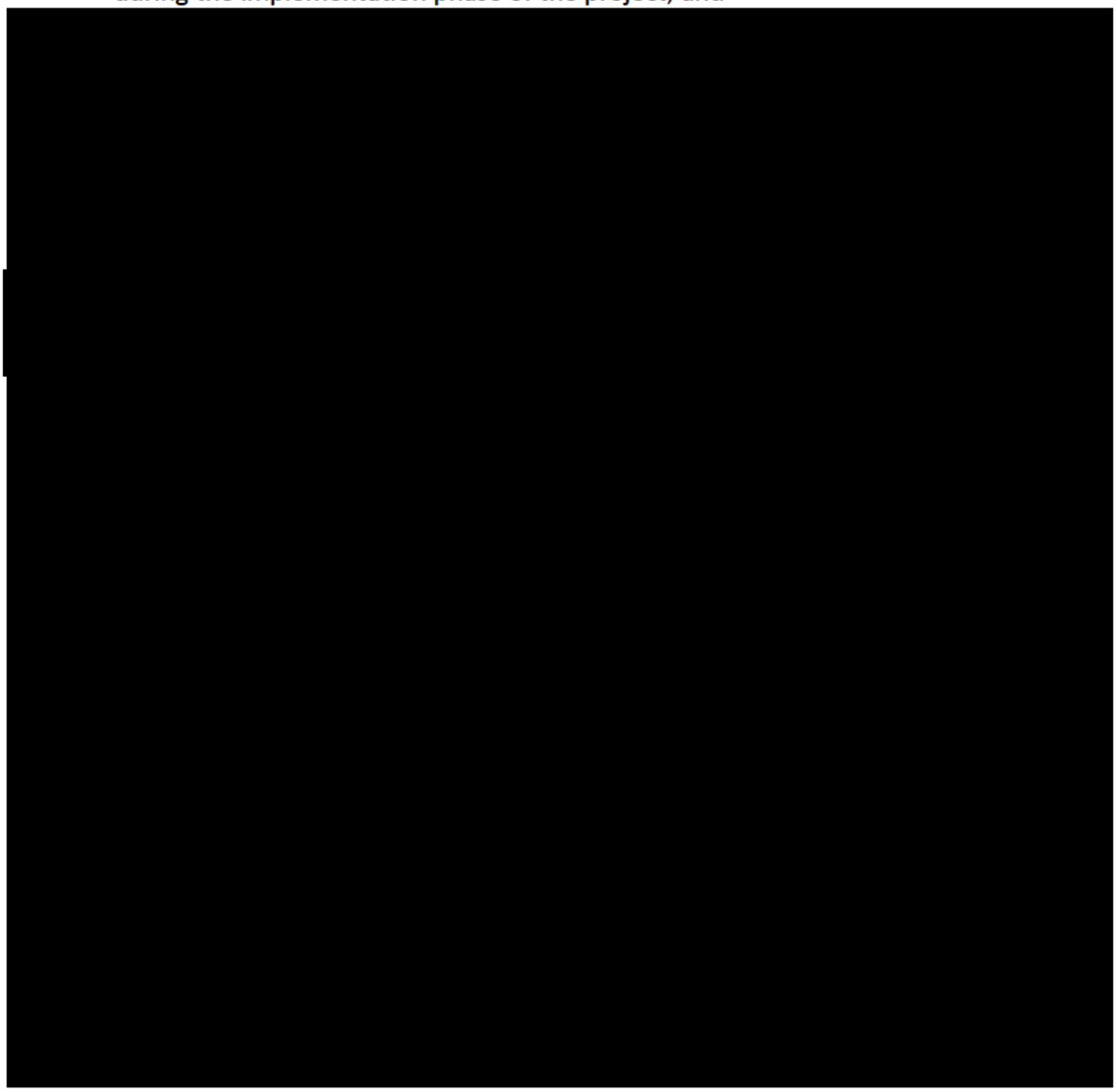
The TIBS sourcing strategy is based on the appointment of a Prime Contractor to the Contract under which the Prime Contractor will design and implement an integrated business solution using third party software from SAP and C-Net. These third party products will be procured under a reseller model where the business executes an order form (incorporated into the Contract) and the Prime Contractor places the order. The contractual framework is set out below. This has a number of commercial advantages for TasNetworks, in terms of addressing some of the risks associated with the software's ability to meet our requirements. Additional mitigations against both scope and cost creep are reflected in the Contract and help to ensure the quality of both the functionality and outcomes delivered by the project. These mitigations include:

Diagram of contractual framework



A number of risk mitigating actions are planned based on the knowledge gained during the evaluation and negotiation process to underpin working with UXC Oxygen Pty Ltd. These include:

- Managing and resourcing the organisational change management stream internally;
- Regular meetings between the CEOs of UXC Oxygen Pty Ltd, TasNetworks and SAP during the implementation phase of the project; and



6. Cost & Benefit Overview

The analysis provided in the previous sections indicates that an ERP is the preferred option, and represents the least-cost option to efficiently meet TasNetworks' obligations and manage risks. This section provides further detail on the ERP costs and benefits.

6.1 Capital Implementation Costs

The total capital cost for the implementation of the TIBS Project is $58.2 million, including $7.5 million CEO contingency. This expenditure is based upon the release schedule set out in Section 8.1. It includes, including contingency:

- Two-year external capital expenditure of $50.7 million; and
- Capitalised internal resource costs of $7.5 million.

These costs are predicated on contracts being executed by 30 October 2015. Should the Business Case approval process extend beyond this date the expenditure figures and benefits realisation will need to be updated.

The capital cost profile of the ERP solution is as follows:

Capital Expenditure

Milestones	ERP - $M*
Enterprise Design	11.4
Release 1 – Finance, Procurement & Business Intelligence	19.2
Release 2 – Asset and Works Management, HR/Payroll, GRC	21.0
Data Cleansing	1.0
Hardware	1.0
Software	4.6
Total	**58.2**

Table 3: ERP – capital expenditure

* P95 scenario. For comparison, a P80 scenario would represent a total of $56.8m.

The table below provides a summary of the capital expenditure during implementation. The significant external costs are related to the Prime Contractor and external support for project management, business process and change management. The assumptions associated with these costs are provided in Appendix B and the overall financial model outputs are shown in Appendix C.

[redacted]

The following table provides a perspective of the expected cash flows for the ERP over 10 years. This indicates the project will generate positive cash flows by the end of the second year post-implementation.

6.2 Capital contingency

In order to estimate the contingency, a Monte Carlo simulation was performed where minimum, most probable and maximum scenarios were estimated for each capital cost element. Given those estimates, 5,000 possible combinations were put together to build a Bell curve and assess probabilities.

The main elements that can impact the overall Capex are internal and external resources (excluding the SI), and they account for approximately one third of the Baseline.

[redacted] Although the contract is set at a fixed price for a certain scope, any change requests resulting from increased requirements that are made could impact costs. High-impact change requests are not expected to take place given that more than 2,000 requirements were elicited and detailed during the RFP, reducing the risk of unknown requirements emerging. However, the Enterprise Design and Discovery phases will bring further possible enhancements to light and change requests might arise.

Considering the risk profile of each cost element separately, the findings were as follows:

Monte Carlo Simulation	Baseline	P80	P90	P95
Contingency capex	0	6.1	6.9	7.5
Total capex (incl. contingency)	50.7	56.8	57.6	58.2
Contingency / Baseline	N/A	12%	14%	15%

Table 5: Monte Carlo Simulation

The Guidelines from Finance and Performance Management recommend a contingency between 10% and 15% for a project such as TIBS at the Stage 3, or Business Case phase, and the simulation findings are in line with that.

Given the potential for a significant portion of the Baseline to vary considerably, it is recommended that a contingency covering at least 95% of the foreseen estimates – with 95% probability (P95) of being within Budget – be set which equates to a 15% contingency

6.3 Operating expenditure forecast

The operating cost profile of the ERP solution is outlined below:

Expected Operating Expenditure

ERP OPEX	Financial Year - $M										
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	**Total**
Application Software	1.3	1.3	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4	**13.6**
Application Support	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.1	**9.6**
Upgrades	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5	**4.2**
Infrastructure Support	0.8	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	**8.5**
Legacy Applications	2.6	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**3.7**
Total	5.9	4.5	3.4	3.5	3.6	3.6	3.7	3.7	3.8	3.8	**39.5**

Table 6: ERP – Expected operating expenditure

Further work is to be undertaken during enterprise design to refine the support model for the application post implementation. Expected Opex has been calculated using data from the bids received during the RFP.

[redacted]

[redacted] Although the contract is set at a fixed price for a certain scope, any change requests resulting from increased requirements that are made could impact costs. High-impact change requests are not expected to take place given that more than 2,000 requirements were elicited and detailed during the RFP, reducing the risk of unknown requirements emerging. However, the Enterprise Design and Discovery phases will bring further possible enhancements to light and change requests might arise. To mitigate the advent of change requests, the governance of this process is predicated on a configure not customise approach.

6.4 Benefits

Implementing an ERP supports the TasNetworks Corporate Plan and strategic objectives by providing the technology enablers and processes to deliver essential network services at lowest sustainable prices to the Tasmanian community.

This project will minimise a number of risks associated with the present asset management, finance, procurement and HR applications. Essential outputs for effective asset management are reduced risk, enhanced system performance, enhanced compliance, effective knowledge management, effective resource utilisation and optimum infrastructure investment.

These goals cannot be achieved by carrying on with current system solutions, upgrades to functionality and/or replacement with best of breed solutions.

The business has the potential to derive the following benefits from implementing an ERP:

Cost Avoidance (not included in the Financial Analysis)

The ERP will replace multiple legacy applications, avoiding the costs that would otherwise be associated with licensing, supporting and maintaining these applications. Improved data quality and processes will reduce the incidence of late payment fees, while costs will also be avoided by bringing some recruitment processes in-house.

Cost Reduction (included in the Financial Analysis)

Implementing an ERP provides the opportunity to reduce costs related to the procurement process through increased focus on sourcing activities, improved supplier management and a reduction in the cost of borrowing, audit fees and bad debts. It will also enable regular maintenance activities to be better planned and coordinated.

Process Efficiencies (quantifiable portion only included in Financial Analysis)

Process efficiency enables a transformation in the way the business works. A reduced head-count or "doing more with same" are two possible outcomes of the revised processes enabled by an ERP, which include:

- The implementation of standard, integrated processes across all asset classes (i.e., not limited to electricity transmission and distribution);
- The elimination of duplicate processes in HR, finance, contracts, procurement and works and service delivery;
- The implementation of automated workflows with in-built controls;
- A reduction in manually intensive activities arising from the current lack of integration between IT applications;
- More efficient budgeting and forecasting, analysis, reconciliation, auditing and compliance and reporting;
- A mobile workforce.

The table below summarises the total forecast reductions in other costs arising from implementation of the ERP. These reductions will net off the costs associated with project implementation.

Benefits	Financial Year - $M										
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	**Total**
Cost Reduction	0.5	4.0	4.7	5.4	6.1	6.4	6.7	6.9	7.1	7.4	55.2
Process Efficiency	0.1	0.9	1.1	1.3	1.5	1.5	1.6	1.6	1.7	1.8	13.1
Total Benefits (financial benefits)*	**0.6**	**4.9**	**5.9**	**6.7**	**7.6**	**8**	**8.2**	**8.5**	**8.8**	**9.1**	**68.4**

Table 7: Benefits Breakdown

*IT Cost Avoidance is not included in the calculated Financial Benefits.

TasNetworks is presently factoring in these total costs in the project cash flows, and this supports the projected efficiencies included in TasNetworks' forward operating expenditure forecasts, including those in our Distribution Regulatory Proposal. TasNetworks is incentivised to maximise the delivery of cost savings and service benefits resulting from TIBS under the capital, operating and service incentive schemes.

Qualitative Benefits

Implementing the ERP will provide numerous qualitative benefits in the areas of risk, compliance, culture and engagement, and decision-making.

- Risk will be mitigated using embedded compliance through single data entry points, in-built data validation and process controls ensuring quality and consistency of business data and processes. Risk will also be reduced by integrating compliance and risk into everyday processes and tasks reducing risks associated with current OH&S reporting and compliance.
- Engaging the workforce with best-in-class applications and information management will enable a focus on value-adding activity and make it easier to conduct work and to access information. The new solution will promote a positive culture and attract and retain high performers by providing industry-leading processes and tools, tailored performance development plans and training.
- The ERP will permit the business to operate as an integrated organisation using common data to enable better decisions and greater transparency of data throughout the value chain.

Benefits identified in the 2014 IBS phase have been further refined as part of the TIBS Business Case phase. Based on current estimates, implementing the ERP will reduce operating expenses from their present level over the next 10 years. The benefits of a single technology platform will also enable TasNetworks to seek additional stretch target benefits across the business such as:

- More effective scheduling: schedulers will have a more flexible scheduling window to work with, and greater visibility of long-term programs of work;
- Fewer project delays: improved scheduling will mean that “knock-on impacts” can be detected when project plans change, and alternatives put in place;
- Improved reporting and analysis capability: resulting from having a “single source of truth” and greater ability to access and manipulate data;
- Improved customer service and responsiveness: by knowing in advance where and when works will occur and being able to notify external parties accordingly;
- Enhanced public and worker safety through enhanced ability to monitor the condition and performance of assets, as well as skills and accreditations;
- Reduced response times for urgent work as a result of streamlined work allocation processes; and
- Improved workforce planning, arising from improved workflow and work order coordination.

6.5 Cash flows

The following table provides a perspective of the expected cash flows directly associated with implementation of the ERP over 10 years. This indicates the project will generate positive cash flows by the end of the second year post-implementation. These projections are consistent with corporate plan budgets. The forecasts support the forecast expenditure and efficiencies factored into the current proposed Distribution Determination (**DD17**) forecasts, with capital and operating cost allocation across Distribution and Transmission based on 79% / 21% respectively.

ERP Cash flows	Financial Year - $M										
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	**Total**
Expenditure	**(27.7)**	**(26.5)**	**(17.7)**	**(3.5)**	**(3.6)**	**(3.6)**	**(3.7)**	**(3.7)**	**(3.8)**	**(3.8)**	**(97.7)**
Capex	(21.8)	(22.1)	(14.3)	-	-	-	-	-	-	-	(58.2)
Opex	(5.9)	(4.5)	(3.4)	(3.5)	(3.6)	(3.6)	(3.7)	(3.7)	(3.8)	(3.8)	(39.5)
Reduction in other costs (financial benefits)*	**0.6**	**4.9**	**5.9**	**6.7**	**7.6**	**8.0**	**8.2**	**8.5**	**8.8**	**9.1**	**68.4**
Net Outlay associated with ERP	**(27.1)**	**(21.6)**	**(11.8)**	**3.2**	**4.0**	**4.4**	**4.5**	**4.8**	**5.0**	**5.3**	**(29.3)**

Table 8: ERP Net Expenditure

*IT Cost Avoidance is not included in the calculated Financial Benefits.

As a result of implementing the ERP solution the business will avoid the ongoing operating costs of maintaining the existing applications as they will be retired. It is anticipated that there will be a net saving in operating expenditure of $8.5M over ten years. This is the difference between the estimated $39.5M operating costs of the ERP over ten years compared to the $48M relating to the operating costs of the retiring applications that will no longer need to be spent.

7. Regulatory and customer context

TasNetworks has a distribution determination that provides revenue until 30 June 2017, and a transmission determination that provides revenue until 30 June 2019. The projected timing of this project sees it delivered within the present transmission determination period, and with an overlap into the next distribution determination period.

The transmission revenue proposal was lodged in a known pre-merger environment. The 2015 AER transmission decision fully approved proposed operating and capital expenditure, including all IT and operational support system expenditure. Extracts from the AER decision are provided below:

- *TasNetworks submitted that its increased forecast partially reflects the deferral of some projects from the current regulatory period to "derive synergies from systems developed as part of the TasNetworks merged network business".*
- *The forecast also reflects increased investment in systems to strengthen asset condition and geographical information, enhance risk management and asset analysis tools, renew operational systems to extract the optimum capacity and life from its assets, and to progress its smart transmission grid development program.*
- *To the extent that operational support system capex is used to support the merged businesses, we expect that it is prudent to delay some expenditure from the previous period given the potential for duplication of systems. This is especially relevant given we understand that the merged business will consolidate a number of functions, including asset planning.*
- *We are satisfied that TasNetworks' proposed $32.5 million capex for operational support systems reflects the requirement for this expenditure category.*
- *TasNetworks has identified that the slight upturn in ICT capex from the low in 2013-14 partially reflects deferral of some projects in the 2009-14 regulatory control period to avoid re-work and derive synergies from systems developed as part of the TasNetworks merged network business.*
- *Based on our category level review of TasNetworks' forecast non-network capex, we have not identified any areas for further specific review at the project or program level. We consider that this level of expenditure, although relatively low by historical standards for some categories, is likely to reflect some synergies from the merged transmission and distribution businesses and as such, reasonably reflects efficient costs.*
- *We are satisfied that total capex which reasonably reflects the capex criteria should include a forecast of **$12.7 million** for non-network capex [the majority of which is for ICT capex].*

The AER made no cuts to the IT expenditure proposed by Aurora, with a distribution determination IT allowance of $53 million in today's dollars. The expenditure was based on Aurora's distribution business IT strategy, and the AER engaged Nutall Consulting to undertake an independent review of the proposed IT spend.

Nutall's review supported the proposed spend, with extracts from his assessment reproduced below:

- *Aurora is proposing a significant increase in IT capex to achieve a step change in business operations and significant ongoing cost efficiencies.*
- *The information provided by Aurora on the current state of its IT systems identifies a complex IT operating environment with a significant number of small and relatively independent IT systems. The significant step change proposed for the future technological state of Aurora is to adopt a consolidation strategy centred on a tier-one platform.*
- *Based on the above analysis, Nuttall Consulting considers that the IT capex proposed by Aurora for the next control period meets the criteria for acceptance; specifically in relation to the factors identified for consideration in the NER.*

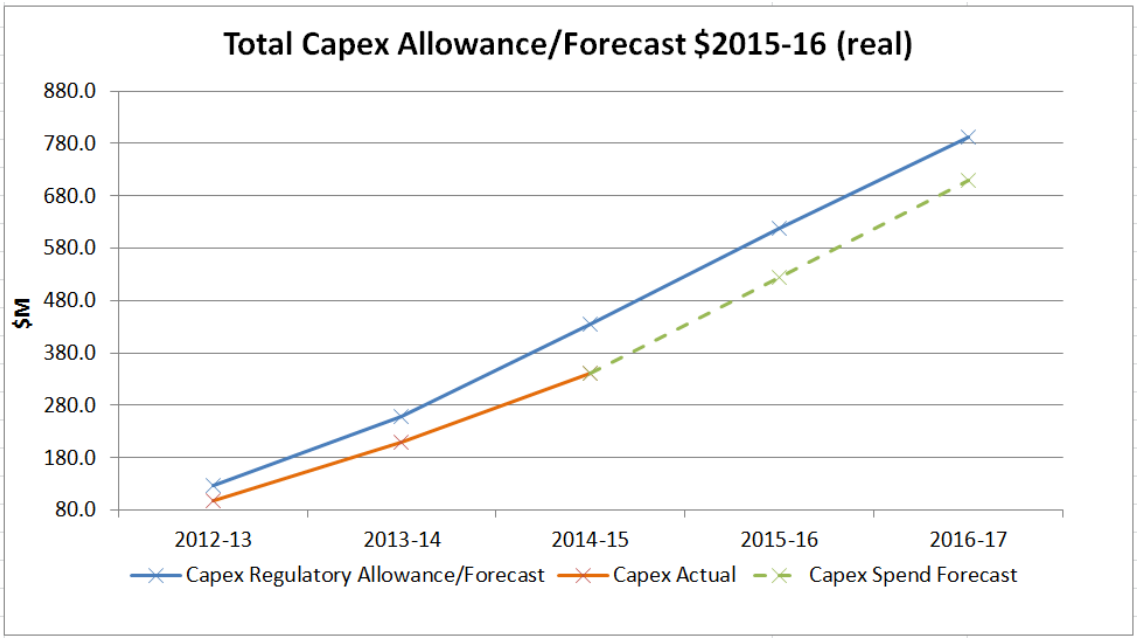
Subsequent to the AER decision for distribution services, Tasmania introduced full retail contestability (**FRC**) and the distribution determination allowed for relevant costs to be eligible for a revenue pass-through.

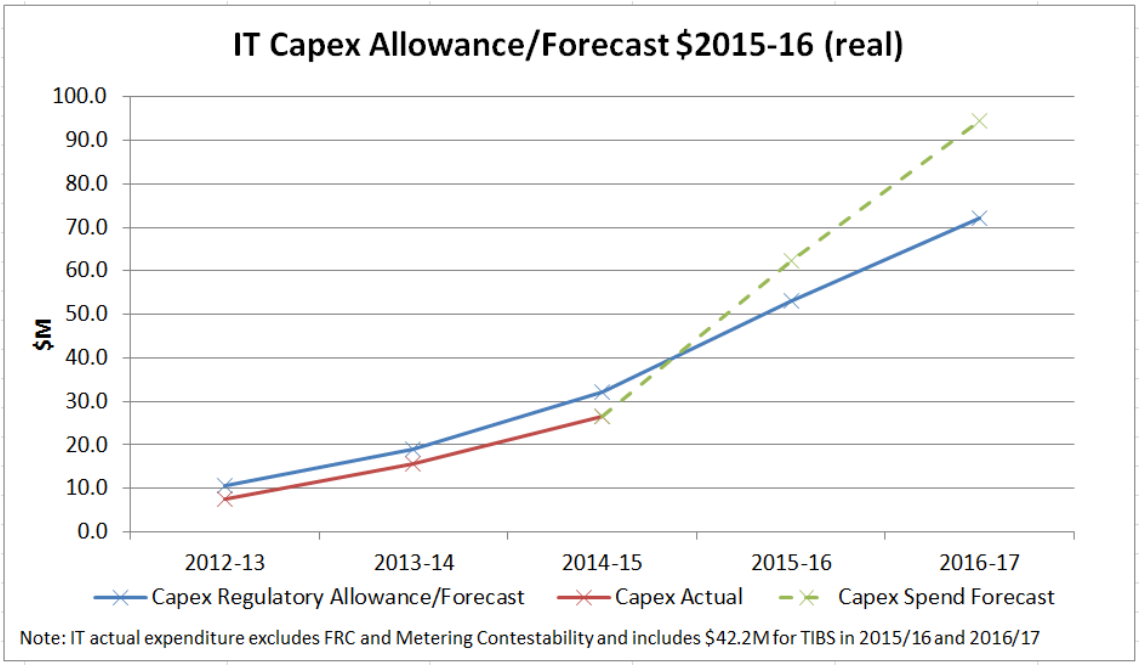
Aurora made a number of IT system and process changes to meet FRC compliance requirements. However, as TasNetworks was tracking well under the allowed capital and operating cost allowances, the business elected not to pass additional costs on to customers but rather to absorb the FRC expenditure within the existing regulatory allowances.

Further, TasNetworks now forecasts to incur costs as a provider of standard control distribution services to implement the proposed competition in metering rule change (noting that there may also be non-regulated metering costs). We are presently forecasting $8 million in our likely end of regulatory period forecasts for these costs. These costs may also be eligible for pass through, as they relate to a change in law.

The charts below illustrate that forecast IT-related expenditure is presently forecast to be higher than the equivalent total distribution and transmission AER allowances (excluding items eligible for pass through). However, our forecasts indicate that TasNetworks can accommodate forecast TIBS capital costs and the FRC and distribution metering costs, within the overall allowances to 2016-17 (which is the last year of our distribution determination).

Projected expenditure for the TIBS project has also been included in forward cost and revenue forecasts for transmission and distribution services to 2018-19, including as part of the consultation under way for the distribution determination. The forward outlook, inclusive of TIBS capital and operating cost outcomes, sees distribution and transmission revenues continue to fall, and stable to falling average customer prices.


Total Capex Allowance/Forecast $2015-16 (real)
$M
880.0
780.0
680.0
580.0
480.0
380.0
280.0
180.0
80.0
2012-13
2013-14
2014-15
2015-16
2016-17
Capex Regulatory Allowance/Forecast
Capex Actual
Capex Spend Forecast


IT Capex Allowance/Forecast $2015-16 (real)
$M
100.0
90.0
80.0
70.0
60.0
50.0
40.0
30.0
20.0
10.0
0.0
2012-13
2013-14
2014-15
2015-16
2016-17
Capex Regulatory Allowance/Forecast
Capex Actual
Capex Spend Forecast
Note: IT actual expenditure excludes FRC and Metering Contestability and includes $42.2M for TIBS in 2015/16 and 2016/17

8. Implementation Risk Management

Business-wide transformation programs are, by nature, complex and require rigorous risk management approaches. The project implementation risks have been assessed based upon industry experience and mitigations have been developed, particularly related to delivery on time and within budget. These project risks have been consolidated to allow reporting at a corporate level to the TLT and Board.

The key risk is that major transformation projects significantly exceed the agreed budget, which may materially impact TasNetworks' reputation and reduce the sustainability of shareholder outcomes. Key causes include:

- The inherent complexity of an integrated systems transformation project;
- Potential deficiencies in project governance through the lifecycle of the transformation project;
- Inadequate budgeting/financial analysis for the scope of the project;
- Solution composition (over engineering);
- Contingency being exceeded due to customisations identified during Enterprise Design; and
- Timely and effective decision making.

Controls and treatments in place include:

- Comprehensive project governance, quality processes and a project structure which will provide an avenue to escalate issues that may impact project costs, project schedule, project scope or quality;
- Engagement and change management frameworks integrated with each phase of the project;
- Change variation controls within a policy of no or minimal customisation; and
- A CEO-approved contingency.

The individual project risks are presented in Appendix D. The risk analysis has been developed using the TasNetworks Risk Framework with support from the Compliance and Risk team to provide an appropriate scale and granularity of risk identification.

The major consequence of all the ERP implementation risks is a significant cost blowout and the stakeholder and financial issues that may arise. The risk assessment conducted has highlighted a number of areas where unforeseen cost increases could occur.

Excessive customisation of the ERP solution is considered a risk that will require active management and reporting during implementation. SAP has standard "out-of-the-box" processes which, in many cases, will be different to the way TasNetworks currently works.

During the Business Case phase, the project has defined solution requirements and set expectations that standard SAP functionality will be implemented. A key guiding principle for implementation is "configuration rather than customisation". During implementation, a disciplined governance approach to customisation will be implemented.

Flexibility in terms of Prime Contractor contingency is also crucial to prevent costs from moving outside estimates. This allows for change which arises from an improved understanding of the solution by the business as the project progresses. The preferred Prime Contractor offers the lowest risk against cost increase due to the greater clarity that has been achieved in defining the scope of the solution and refining its costing assumptions. Its bid considered the high-level nature of some of the requirements and therefore offers a level of flexibility to consider the impacts of change across the business without the "threat" of cost variances.

Other ERP implementation risks where control is critical are:

- Inadequate or poor scoping of process and system requirements;
- Insufficient or inadequate budgeting;
- Inexperienced project management and project team;
- Lack of user ownership;
- Slow decision making and/or a lack of decision-making authority;
- Inadequate or insufficient project resources;
- Prime Contractor not fit for purpose;
- Poor/slow data migration; and
- Lack of executive management commitment.

With these risks in mind, a number of risk mitigation activities have taken place during the Business Case phase to establish a strong foundation for implementation and reduce implementation risks. These include:

- Elaboration of requirements with business stakeholders. This process has removed much of the ambiguity from the requirements first drafted in the IBS phase and helped to clarify how the requirements will be delivered;
- A thorough process to ensure the forecasted costs are accurate. This analysis has also incorporated a holistic view of the entire scope, rather than a module-by-module approach which has higher cost and usually encounters cost creep;
- The release schedule has been designed to include an Enterprise Design phase to verify how the solution will meet the detailed requirements;
- There has been a good level of stakeholder engagement with the business by the project team to understand business needs and change readiness. This includes engagement with senior management through the Steering Committee and TLT;
- The project team has been defined to include:
    - A Project Management Office to manage cost, scheduling and quality;
    - Quality assurance reviews by an independent, external third party to provide broad oversight of project governance;
    - "In-flight" quality assurance (internal to the project) that will take place alongside of the day-to-day project activities to proactively identify and manage the risks associated with a business transformation, particularly related to time and cost; and
    - SAP safeguarding services / MaxAttention to provide assurance around the solution architecture.

- A pragmatic approach to data migration.

While implementing the ERP, the project also needs to be mindful of the other IT projects that are being conducted concurrently, such as those associated with Voice of the Customer and Metering Rule Changes. Key risks that have been highlighted include the quantity and complexity of technical changes occurring elsewhere in the organisation, the inability to deliver "business as usual", increased project costs as a result of undefined critical path decisions, significant disruption to core services during and/or post implementation, and failure to meet project objectives due to cultural diversity between project participants (external consultants and TasNetworks resources).

Treatments include the management of these projects within a suitable governance framework, clear understanding of current and future system architecture, clear transition planning, consistent change management and communication approaches and transparent and proactive resource management planning at a project and program level.

9. Implementation Plan

A plan has been developed to ensure the successful implementation of the SAP ERP solution. This is provided below and based upon the risks, costs and benefits of the project.

9.1 Release Schedule

The project team has investigated various release schedules. The implementation approach recommended is sequential, in order to minimise risk. The release schedule has been developed in conjunction with TasNetworks stakeholders, external consulting expertise, SAP and the preferred Prime Contractor.

The proposed schedule as shown in the schematic below is:

- A five-month period defining the Enterprise Design. This phase provides the holistic view of the interacting processes and will ensure the release timings and scope are clearly defined.
- Following Enterprise Design is a 22-month period of implementation for the core functions, broken down into Release 1 and Release 2. Assuming Release 1 commences in March 2016, both releases will be completed by December 2017 (includes Christmas breaks).

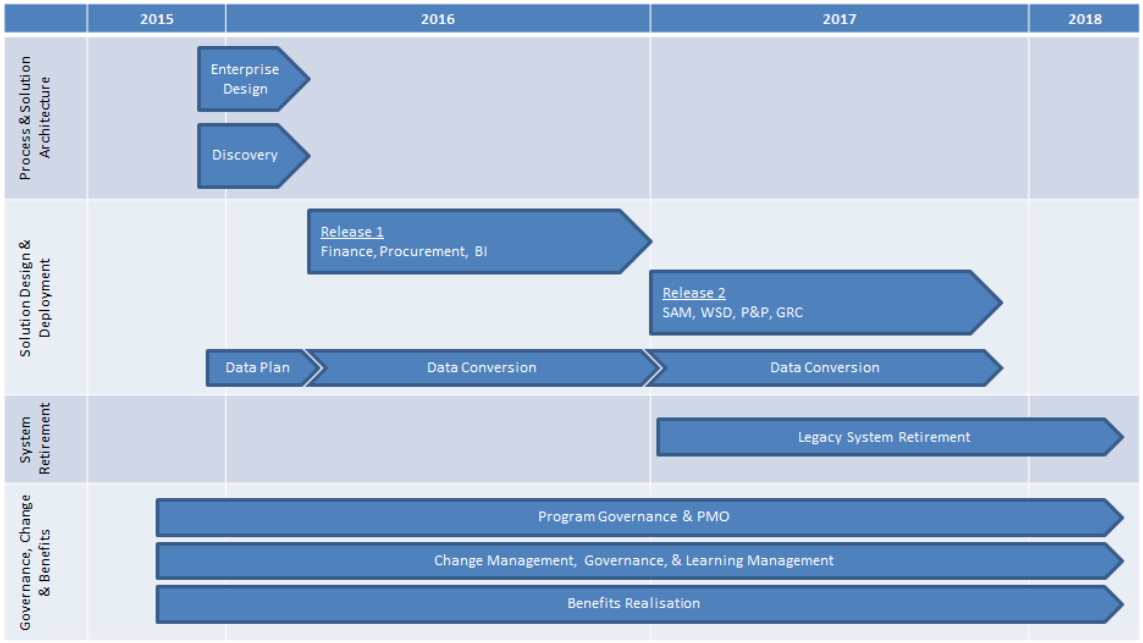


Figure 2: Indicative release timings

9.2 Project Resources

The resourcing approach has been defined to ensure TasNetworks has the capacity and capability to deliver the project successfully and operate the solution post-implementation. Significant internal resources will be required, however the implementation approach will help to minimise the impact on the business. The approach includes:

- Running an expression of interest (**EOI**) process to help identify suitably qualified TasNetworks resources capable of providing knowledge such as business expertise, project management support, and process engineering;
- Where gaps exist, using experienced external resources to provide best-practice support and assist in managing the Prime Contractor; and
- Engaging SAP to provide safeguarding services to ensure the build and deployment of the solution meets TasNetworks' requirements.

One of the strengths of this model is that it gives team members with intimate and extensive knowledge of TasNetworks' business the opportunity to undertake a skills transfer from experienced consultants, ensuring that this knowledge is retained in business after the completion of the project.

The table below shows the forecast distribution of internal and external full-time resources:

Enterprise Design			**Release 1**			**Release 2**		
TNW internal team	TNW external team	Vendors	TNW internal team	TNW external team	Vendors	TNW internal team	TNW external team	Vendors
22	13	35	24	11	20	28	13	35

Table 9: Internal and external full-time resources

This table takes into account the number of months per project phase and an average of 20 working days a month. Costs for all full-time project resources have been included in the implementation costs as part of the overall investment assessment. TNW external resources represent consultants and contractors engaged by TasNetworks to supplement internally sourced project team members.

Once the EOI process is complete, successful team members will be seconded onto the project for relevant durations, provided with new job descriptions to cover their roles and responsibilities, and effectively on boarded to the project. Key resources on the project will have relevant project KPI's incorporated into their Achievement and Development plans. KPIs have also been put in place for the TIBS Steering Committee, which includes all General Managers and the General Counsel and Company Secretary.

9.3 Governance

The governance for this project requires a strong executive management involvement from all parties to ensure a successful implementation and the effective management of risk. A governance framework has been developed to describe the roles and responsibilities within the governance structure. This framework will be extended and finalised prior to the commencement of the implementation once the successful vendor has been appointed (Refer appendix J).

The key roles of the structure will include:

- Board – Responsible for approving the TIBS Business Case and acting as a point of escalation for the CEO where:
    - a change to the solution may have a material impact on benefits or the Business Case;
    - an increase in the amount of contingency is required; and/or
    - there is a change to key dates (e.g. milestones) and the project contingency is utilised.
    - At each milestone, as set out in Section 13.1, the Board will receive confirmation from the Steering Committee that the project is able to proceed to the next phase.
- CEO – Responsible for providing leadership and strategic direction; acting as the point of escalation for the Sponsor and Steering Committee;
- Sponsor – Key advocate for the project in executive management; "owns" the Business Case. Ultimately responsible (with other members of the Steering Committee) for project and business assurance;
- Steering Committee – Members of the TasNetworks Leadership Team (**TLT**), to provide collective responsibility and accountability for the success of the project;
- Project Director(s) – TasNetworks and the Prime Contractor will each have a director assigned to the project. Working collaboratively, they will be responsible for driving the pace and schedule of the project, approving deliverables and the delivery of obligations from TasNetworks and the Prime Contractor;
- Steering Committee Adviser – An external adviser will be appointed to assist the Steering Committee to provide appropriate levels of governance to the project; and
- Quality Assurance Adviser – An external quality assurance provider will be appointed to undertake formal QA reviews during the project. Terms of appointment will ensure that the adviser has unfettered access to the board and vice versa.

There will be a number of governance forums / mechanisms to provide oversight to the project including:

- Board – will be provided with monthly updates on project status and detailed quarterly board reports, including the reports from the quality assurance adviser.
- Capital Investment Review Team (CIRT) – will be provided with monthly reporting and enable analysis on the ongoing performance of the project;
- Compliance & Risk Team – will be provided with regular updates regarding identified risks and mitigating actions for the quarterly board risk report;
- Steering Committee – this forum will include senior representatives from TasNetworks and the Prime Contractor. A monthly meeting will be held to set priorities, confirm scope, and review and approve key deliverables;
- Project Management Group – acts as the voice of the business within the project team and advises on business and process issues that impact the project and / or related projects;

- Technical Reference Group – will be established using representatives from the business and Prime Contractor as appropriate to provide oversight to ensure adherence to policies, standards and systems implemented in the business;
- Process and Data Governance Group – responsible for decision making on business process matters and issues related to data governance (migration rules etc);
- Business Transition Group – provides input to the project on business readiness for change activities and issues related to training and communication.

9.4 Data Migration & Ownership

A significant component of an ERP implementation is the migration of data from existing applications to the ERP. The majority of the TasNetworks data is sourced from eight main applications (WASP, GTech, Sun Financials, Navision, ProcureGate, Project Server, PeopleSoft and Aurion). During the Business Case phase, BackOffice Associates undertook the following activities to minimise issues during the planned data migration:

- An assessment of key applications to determine data quality and the cleansing effort required;
- An assessment of future data migration strategies the effort required to migrate legacy data into the ERP.

The outputs of this assessment have been incorporated into the Business Case costings.

During implementation a governance structure will be built that includes Data Owners and Data Stewards. This structure will ensure:

- Development of a strategic plan for enterprise-wide data;
- Effective and timely data decisions;
- Accountability for data management;
- Ownership of data objects; and
- The establishment of relevant KPIs, operational objectives and obligations to maintain data quality going forward.

9.5 Organisational Change Management (OCM)

TasNetworks is embarking on a transformation project that will impact all core processes and people within the business.

To minimise disruption to business operations and assist in the transformation process, a fit-for-purpose Organisational Change Management (**OCM**) Strategy is required to build understanding and positive perceptions of the project, and support user adoption, utilisation and proficiency in the new ways of working post-go live.

The OCM Strategy defines TasNetworks' approach to organisational change management for the TIBS project; that is, the people side of change. It also details the change activities required to successfully transition TasNetworks to the new work practices that the ERP solution will support.

To achieve these outcomes, TasNetworks developed an OCM Strategy which sets forth methods to advance and embed the transformational elements of the project by helping TasNetworks people to develop:

- An understanding and support for the new ways of working;
- Leaders with the skills to lead through change;
- A change community for anchoring and sustaining change;
- Communications, approaches, key messages and project updates for their people;
- Performance KPIs and development plans for their people and teams.

The OCM strategy was prepared in consultation with selected TasNetworks business stakeholders via the following:

- **A Scope and Depth Review** – Conducted with the project Sponsor and CEO. This is a structured way to explore all the aspects of the business that may need to change for the project to succeed. The results of the Scope and Depth of Change activities are designed to clarify and confirm exactly what needs to change for TIBS to be successful.
- **Change Readiness interviews** – Completed to gain an understanding of the enablers and barriers relevant to the business transformation. The report sets out to identify TLT perspectives, and the challenges that may need to be addressed in bringing about a successful change. The Change Readiness Report will help provide the context required to create change management and implementation strategies that are relevant to TasNetworks throughout the program.
- **Change Leadership** – Education and awareness sessions with TLT members to enable our leaders as change leaders.
- **Project Change Vision Statement** – The objective of a change vision is to promote change in the desired direction, provide a clear reason for getting "on board" with the change and to inspire employees to believe in the change and the future state. A workshop was conducted with the TasNetworks Leadership Team to develop this statement:

"Enable our people to create a great place to work, that is agile, responsive and delivers quality to our customers and the Tasmanian Community"

- Communication and Engagement Plans
- Detailed Change Lever plans

Based on the information gathered from key stakeholders during the Business Case phase, the OCM Strategy has been developed comprising seven change levers:

- Change Leadership
- Communication and Engagement
- Organisation Design
- Performance Management
- Staffing and Deployment
- Remuneration, Rewards and Recognition
- Learning and Development

These levers will be supported by a structured Business Readiness approach to make certain each business group has a smooth transition to the new ways of working at each project phase.

The strategy and change lever plans will all be reviewed at each phase of the project to ensure they are relevant and fit for purpose and will be used to deliver a coordinated, resourced and well-communicated set of activities throughout the change lifecycle of the project.

10. Business Case Oversight

The Business Case phase of the TIBS project has been conducted with a high degree of transparency and oversight. The procurement process was managed by TasNetworks' Tendering and Contract Team, which was supported by external parties including Wise Lord & Ferguson and K&L Gates.

Specifically, Harvey Gibson from Wise Lord & Ferguson acted as the Probity Adviser throughout the RFP procurement process. Mr Gibson's services were utilised to ensure continuity from the IBS process (September – November 2014), in which he was engaged in a similar manner. Mr Gibson provided oversight throughout the procurement process, and was present at TasNetworks' offices at critical points in the process, including:

- Market Briefing Forum;
- Evaluation Methodology Finalisation;
- Evaluation Team Briefing Sessions;
- Finalisation of RFP shortlist (i.e. down to three suppliers);
- Resolution of claims of conflict of interest;
- Down-selection to two suppliers; and
- Evaluation finalisation and identification of preferred Prime Contractor.

Further, the Team Leader of Tendering and Contracts had a critical oversight role to the entire market engagement process, including:

- Tender preparation and development of evaluation methodology;
- Market briefing;
- Oversight of compliance checking and shortlisting processes;
- Being present at all scripted demonstration days;
- Attending all reference calls;
- Being present in all negotiations with shortlisted Prime Contractors; and
- Serving as the single point of contact for all communications between the TIBS Negotiation Team and Prime Contractors.

As detailed in the report from the probity adviser (refer Appendix F), it is Mr Gibson's opinion that the RFP process was conducted fairly and equitably to all parties and in a way that ensured that issues of probity were addressed and resolved in a timely manner. This was successful in identifying and eliminating potential conflicts of interest.

In addition to Wise Lord & Ferguson, a number of other external parties were engaged to provide an additional layer of oversight:

- On the commercial side, Cameron Abbott, partner from K&L Gates, assisted TasNetworks' negotiating team. K&L Gates' summary letter is set out in Appendix G. [redacted]
- KPMG:

- Audited the financial model, determined that it was consistent with the underlying source data and that consistent and accurate calculations were contained within the model;
- Reviewed the proposed governance structure and indicated that it was consistent with good commercial project management governance structures across similarly complex programs of work;
- Analysed the ERP v BoB options paper, and noted that it clearly articulated the rationale and assumptions used to determine the capital expenditure for both the ERP and BoB cases. In addition, their independent assessment supports TasNetworks' recommendation of Option 5 ERP; and
- Assessed the overall end to end process used to decide on the implementation of an ERP solution and noted that the overall process for determining TasNetworks future technology platform and systems was consistent with what you would expect for projects of this scale. This includes a broad level of internal stakeholder involvement across all levels of the business and the open market commercial procurement process undertaken.

Please refer to the KPMG Quality Assurance Review report (Appendix H) for further detail. *The report does not present any adverse findings and supports the recommendation of Option 5 (ERP)*

Based on the extensive analysis and the conclusions reached by these independent parties, the Steering Committee believes the process has been both transparent and robust, and is confident that the project will deliver the best outcome possible for TasNetworks, its staff, customers and shareholders.

11. Shareholder Engagement

Comprehensive stakeholder analysis was completed as part of the initial stages of the Business Case phase of the TIBS project. This identified the level of engagement for all stakeholders impacted by TIBS, and especially the level of engagement required for the Department of Treasury and Finance (Treasury) and our shareholders.

Both Treasury and the Ministers' offices have been regularly briefed on the progress of the Business Case via normal stakeholder meetings.

TasNetworks received a letter from the Treasurer outlining the Shareholders' expectations of the Board in considering and approving the TIBS Business Case. The Treasurer expects the Board to consider the Business Case in the context of the *Capital Investment Guidelines (Tasmanian Government Businesses)*, noting, however, that the project does not fall under the Guidelines. The letter states that the Board should undertake appropriate due diligence in respect of the project, and ensure that the TIBS Business Case provide:

- An assessment of the expected rate of return (**IRR**) and projected cash flows;
- Details of expected process efficiencies and benefits;
- Details of significant risk exposures and the ability of the business to manage such risks;
- An assessment of alternative options that have been considered and why these have been discounted; and
- Details of the business's ability to resource the project (refer to Section 7.2).

Management considers that the due diligence items required by Shareholders have been included in the TIBS Business Case.

As the TIBS project is a regulated investment it will be capitalised into the respective regulated asset bases (**RAB**) for transmission and distribution (in their respective shares). As such it will receive a rate of return equivalent to the WACC applicable to the transmission and distribution asset bases. The Business Case has also assessed the NPV's of the Option 3 BOB Retain and Re-implement, Replace WASP and Option 5 which used WACC as the discount rate.

TasNetworks will continue to keep Treasury informed of progress and matters pertaining to the TIBS project through regular scheduled meetings.

12. Conclusion

The project team has spent the past twelve months investigating and analysing the least cost options to meets TasNetworks' business requirements and risk appetite. This includes a detailed analysis and merits of implementing an ERP solution that will help deliver the strategy as outlined in the Corporate Plan and replace the current ageing, fragmented IT environment. Findings from the Business Case Phase have confirmed that the ERP platform is the least-cost option to address these issues.

Implementation costs have been defined, with a supporting implementation plan to manage risks. The findings from this investigation clearly support the recommendation that TasNetworks implement an ERP solution.

Implementing TIBS will assist the business to deliver the following key strategic objectives:

- Simplify operations and reduce costs across the business;
- Facilitate better decision-making based on improved data quality;
- Enable single view of enterprise assets;
- Enable customer-facing services and collaboration to improve the quality of service;
- Establish an enterprise-wide process for managing and reporting capital projects; and
- Improve the quality and cost of IT services across the business.

TIBS will also enable the business to deliver on its one business strategic initiative.

13. Next Steps & Recommendation

13.1 Next Steps

The next steps are based on a contract execution date of October 30. The TIBS Project team will provide the TLT and Board with regular updates on the progress of the implementation, with key milestone dates shown in the table below:

Milestone	Planned Date
End of Enterprise Design	March 2016
End of Build / Unit Test Release 1	October 2016
End of Integration Test Release 1	November 2016
Go Live and HyperCare for Release 1	January 2017
End of Build / Unit Test Release 2	September 2017
End of Integration Test Release 2	October 2017
Go Live and HyperCare for Release 2	December 2017

Table 10: Milestone dates

13.2 Recommendation

It is recommended that the Board:

a) approves the TasNetworks Integrated Business Solution Business Case;

b) approves capital expenditure of $58.2 million for the implementation of an ERP solution, which includes a $7.5 million contingency; and

c) approves execution of the Prime Contract for System Implementation, Products and Support Services (**Contract**) with UXC Oxygen Pty Ltd as the Prime Contractor, which will include licence terms agreed between the business and SAP for the use of the SAP software.

Notes

A. Bibliography

1. IBS Strategy February 2015 Board Paper
2. TIBS Organisational Change Management Strategy
3. TIBS Data Management Assessment
4. TIBS Change Readiness Assessment
5. TIBS Board Update May 2015
6. TIBS Board Update June 2015
7. TIBS Board Update July 2015
8. TIBS Board Update August 2015

B. Appendices

[redacted]

B. Financial Model Assumptions

[redacted]

D. Risk Management. (Detailed risk assessment available in Board Pad reading room)

E. Letter from Battiston Consulting, 25 August 2015: "ERP Deployment: Best of Breed versus Integrated Single Supplier"

F. Wise Lord & Ferguson Probity Letter, dated 17 August 2015

[redacted]

H. KPMG TIBS Project Quality Assurance review, October 2015

I. Letter from shareholders, dated 6 August 2015

J. TIBS Governance Framework

C. Glossary

Abbreviation / Acronym / Term	Meaning / Description
AER	Australian Energy Regulator
Aurion	Human Resources and Payroll application
BAFO	Best and final offer
BI	Business Intelligence: Techniques and tools for transforming raw data into meaningful information
BOB	Best of Breed: Best product of its type
BOM	Bill of Materials
Capex	Capital Expenditure
CIRT	Capital Investment Review Team
C-NET	Australian supplier of Workplace Health & Safety Management Software
DNSP	Distribution Network Service Provider
EOI	Expression of Interest
Ellipse	Enterprise Asset Management application previously sold by Ventyx
ERP	Enterprise Resource Planning: business management software used to collect, store, manage and interpret data from many business activities, including product planning, manufacturing or service delivery, marketing and sales, inventory management, shipping and payment
FRC	Full retail contestability
GRC	Governance, Risk and Compliance
G-Tech	Geospatial Information System
IBS	Integrated Business Systems project
IRR	Internal rate of return
JDE	JD Edwards – supplier of ERP systems, now owned by Oracle
KPI	Key Performance Indicator
MaxAttention	SAP's premium customer support plan
Maximo	IBM Maximo Asset Management is a suite of functions to manage Assets, Works, Inventory, Procurement, Resources and Contracts.
Monte Carlo Model	Monte Carlo model is a technique used to understand the impact of risk and uncertainty in financial and forecasting models
Navision	Financial management and accounting application
NPV	Net present value
OCM	Organisational Change Management
OPEX	Operating Expenditure
Peoplesoft	Human Resources and Payroll application
Primavera	Oracle Primavera Enterprise Project Portfolio Management is an application to prioritise, plan, manage, and execute projects, programs, and portfolios.
Procure Gate	Procurement application
Project Server	Web-based application used to track and manage projects
P50	50% probability
P80	80% probability
P90	90% probability
P95	95% probability
RFI	Request for Information
RFP	Request for Proposal
RIN	Regulatory Informational Notice
RMSS	Risk Management Software System
SAP	Vendor of Enterprise Resource Planning solutions

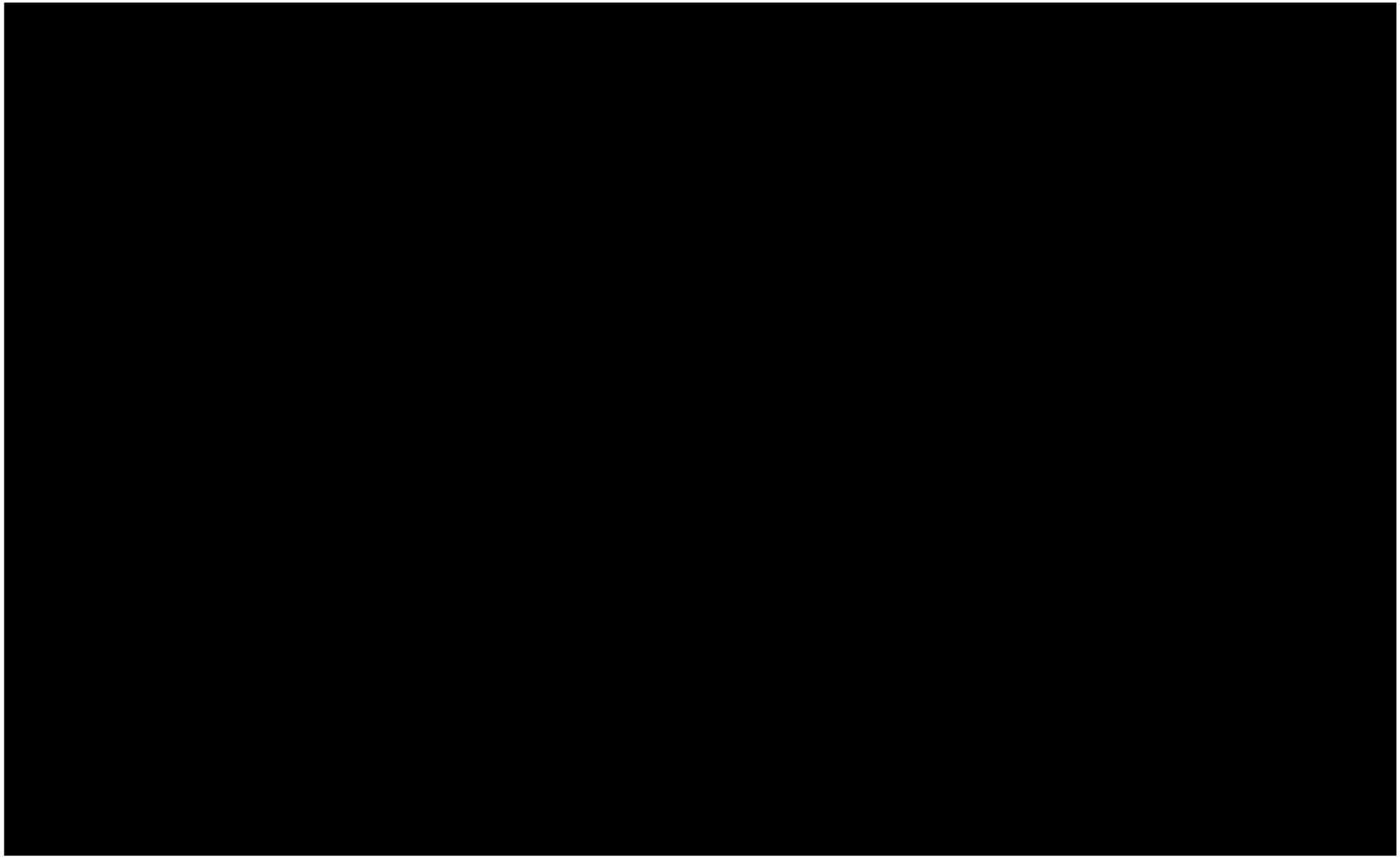
SI	Systems integrator
SUN	Financial management and accounting application
TIBS	TasNetworks Integrated Business Solution
TIPP	Tasmanian Industry Participation Plan
TLT	TasNetworks Leadership Team
TNSP	Transmission Network Service Providers
Ventyx	Software vendor now owned by ABB Group
WACC	Weighted Average Cost of Capital
WASP	Works, Asset Management and Scheduling tool
WRICEF	Workflows, Reports, Interfaces, Conversions, Enhancements, Forms

[redacted]

Appendix B: ERP Financial Model Assumptions

Assumptions	
GENERAL	
Business Case Costs	Not costed, sunk costs.
Schedule of Works	27 months for Enterprise Design, Release 1 and Release 2, in line with TasNetworks recommendation and Contract with Preferred Vendor.
Depreciation	It was considered 7 years of depreciation based on recommendation from Finance.
Tax	Although TasNetworks does not pay taxes because it is a government owned company, tax has to be included in the calculation according to the guidelines from Finance.
Risk Premium - NIL	There was no risk premium applied to this option
Weight – Transmission and Distribution	The weights used for calculating the WACC considered that 79% of the impact should be in Distribution and 21% in Transmission.
TasNetworks Contingency	Monte Carlo Simulation was performed and P95 was recommended and taken into consideration.
CAPEX	
Application Software	Preferred Vendor's bid - Schedule 8.1, including Optional BOM.
SI - Implementation Services	Preferred Vendor's bid - Schedule 8.2.
Hardware	Preferred Vendor's bid - Schedule 8.4. To be reviewed after Enterprise Design.
External Resources	TNW Resources Worksheet, estimated by TIBS team.
Internal Resources	TNW Resources Worksheet, estimated by TIBS team.
Travel & Expenses	Approximately 13% of SI's implementation Costs and external resources.
Training	Value estimated by TIBS team for training based on market intelligence from similar E&U company.
Quality Assurance	Value estimated by TIBS team for QA based on market intelligence.
Accommodation Fit Out	Value estimated by TIBS & Facilities team.
Data Cleansing	Value estimated by TIBS team.
Integration of TN Applications	Value estimated by TasNetworks IT to integrate the BaU applications to the ERP.

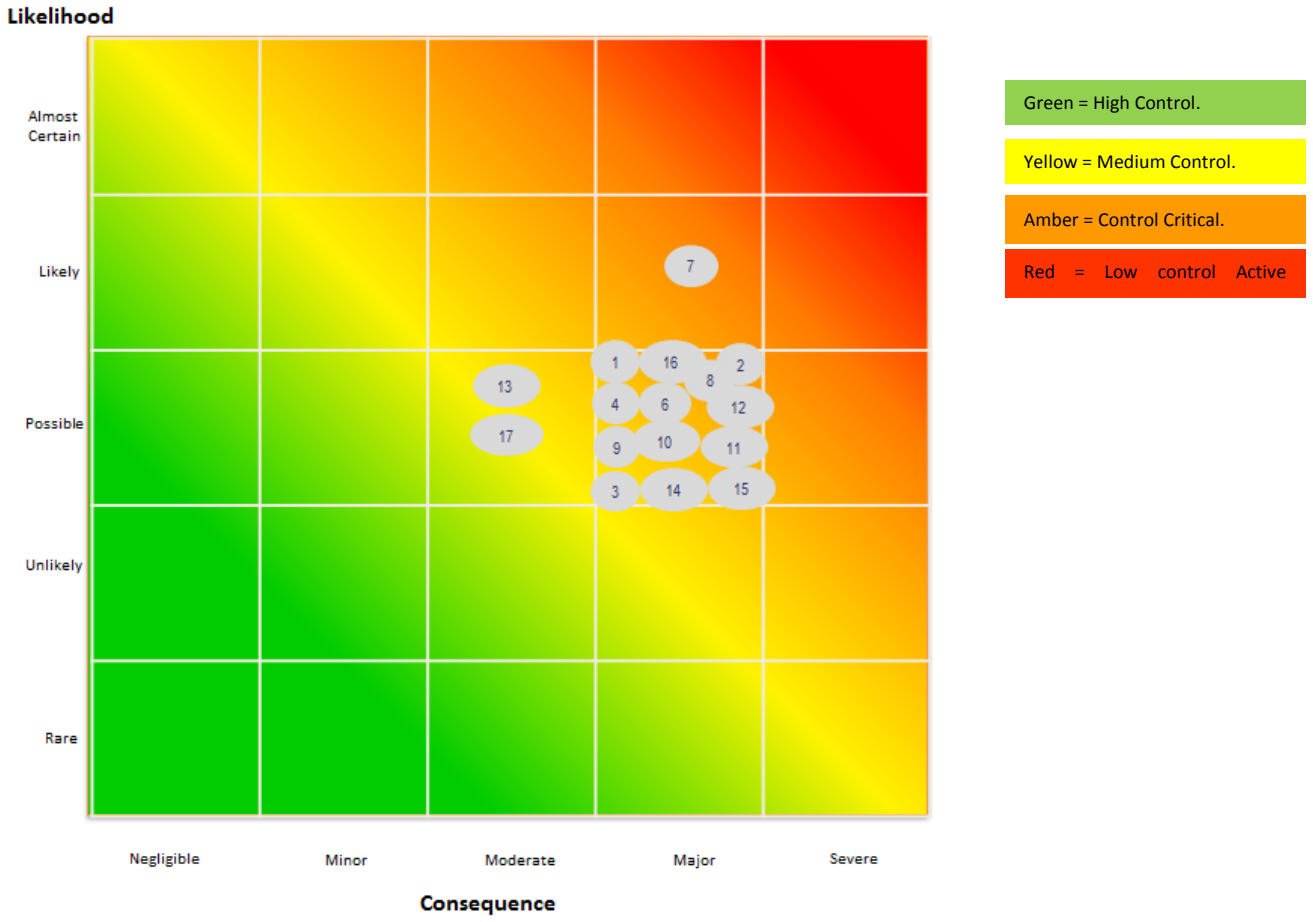
OPEX	
Application Software	Preferred Vendor's bid - Schedule 8.1, indexed at 2.5%, every 3 years.
Application Support	Preferred Vendor's bid - Schedule 8.3, indexed at 2.5% per year.
Upgrades	A provision of $8.5m for upgrades over 10 years was estimated and spread on a yearly base.
Infrastructure Support	Preferred Vendor's bid - Schedule 8.5, indexed at 2.5% per year.
INCOME	
Benefits	Values estimated by GMs and their teams, indexed at [redacted] if other type of cost. The estimates will be refined after Enterprise Design since the impacts of the ERP will be better known after such phase.



Appendix D: Risk Management

Residual Risk Matrix

Residual risks are risks assessed after the evaluation of programs, internal controls and management practices used to mitigate risks. The following matrix shows the risks for the project and the overall program. Note: risk number and/or order does not relate to the risk rating or priority ranking.



Project Risk Treatments

The following table provides planned treatments for all the implementation risks identified. Treatments have been defined for all risks and are available if required.

Detailed risk assessment available in Board Pad reading room.

Ref	RISK DESCRIPTION (DETAILED)	RISK TREATMENTS
1	There is a risk that the required level of resourcing cannot be maintained through to the completion of the TIBS Project	1. Ensure all internal roles on project are backfilled in time and for the required duration 2. Ensure schedule is sufficiently flexible to accommodate unplanned absences 3. Ensure full resource plan is developed and costed in Business case 4. Ensure resourcing model is communicated to the business - understanding of the need for full time resources 5. Provide support to business resources, remove them totally from BAU, ensure secondments are fixed-term
2	There is a risk that TIBS has the wrong project resources allocated including capability gaps, business knowledge gaps, or skills gaps in decision making	1. Ensure TNW has the ability to vet / veto SI's prospective team members and / or request changes to team make-up should issues arise 2. Include resources with sufficient expertise on project team and engage in activities to develop further capability as project progresses 3. Ensure the best people are seconded to the project 4. Ensure experienced resources are available to advise and mentor as required 5. Include resources with sufficient expertise on project team and engage in activities to develop further capability as project progresses 6. Draft detailed position descriptions including responsibilities and capability requirements for project duration 7. Ensure business resources have the skills, experience and confidence to make decisions and that mechanisms are in place to support them when they need to seek additional advice 8. GMs agree and support the TIBS Project resource plan and reinforce guidelines around BAU work.
3	There is a risk that the planned project schedule is not met and some major milestones need to be extended	1. Reinforce need for timely decision making, review and sign-off 2. Provide full-time resources to project; reinforce need for timely review and sign-off with BPOs, GMs 3. Ensure Strong Project Governance is in place which will provide an avenue to escalate schedule impacts 4. Scheduling appropriate resources with experience in large programs 5. System Integrator to provide more detail on accelerators during planning 6. Policy of no Customisation - change the process "Adopt or Adapt" 7. Implement Gaps process to manage changes

4	There is a risk that poor contract negotiation and/or management of the contract negatively impacts the Project	1. Ensure terms of contract encourage vendor to deliver as agreed 2. Agree flexible approach to change requests before signing contract 3. Manage according to Gaps process 4. Clarify requirements and confirm assumptions during ED phase 5. Use of legal action if required
6	There is a risk that the Enterprise Design phase is delayed or does finish within agreed timeframes and/or does not deliver a quality Enterprise Design	1. Ensure Project schedule is well developed including full dependency mapping and resource levelling 2. Ensure that all Stakeholders are aware of their responsibilities in either support or sign off of processes 3. Link ED outputs to Benefits 4. Develop Solution composition and release strategy based on ED 5. Draft best practice level 1-3 frameworks 6. Increased ERP education for ED 7. Ensure Gap process is established and followed 8. End to End processes will need to be developed and touch points are documented 9. A detailed project schedule for ED in place and socialised
7	There is a risk that the scope of data migration is not adequately defined by the business.	1. Perform a full audit of both formal and informal tools and repositories to identify all data that needs to be migrated. 2. Work with SI to identify data required in new solution 3. Ensure data ownership roles and responsibilities are incorporated into relevant PDs 4. Communicate and reinforce importance of data ownership; incorporate data quality activities into project schedule 5. Internal team for data stewardship
8	There is a risk that the solution design is over-engineered or there are excessive customisations	1. Develop rigorous Gaps process to identify, prioritise, justify and authorise essential customisations that do fall within the budgeted contingency 2. Adapt business processes that reduce / minimise need for customisation 3. Streamline business rules and workflows to simplify workflow requirements
9	The Enterprise Design Phase shows that the “gap bucket” is too big, leading to a review of the project Business Case.	1. Ensure scope is clearly articulated and unambiguous in Business Case 2. Review requirements with vendor early in ED to ensure common understanding of both requirements and underlying assumptions 3. Use of Gaps process to manage CR's

10	There is a risk that identified project benefits will not be achieved (project fails to deliver the expected benefits)	1. Develop rigorous Gaps process to identify, prioritise, justify and authorise essential customisations that fall within the budgeted contingency 2. Manage changes in scope to assess impact and risk 3. Ensure sufficient training and support is in place to maximise effective use of the new solution 4 Guesstimate baselines which can be used as a starting point for measuring benefits 5. Identification of change effort required to assist the business adoption of the new ways of working 6. Managing the productivity dip post implementation 7 Revisit Benefits regularly during project
11	There is a risk that a loss of support or failure to carry out their roles by the Project Sponsor or Steering committee negatively impacts on the Project	1. Ensure project sponsor and steering committee are aware of their roles and responsibilities up front and are committed to fulfilling them 2. Link project success to KPIs 3. Ensure strong TNW project director in place to escalate issues and advise sponsor and Steering Committee.
12	There is a risk that Organisational Change Management is not scoped or assessed correctly for a Transformation project i.e. this is an IT project only	1. Communicate project objectives clearly and reinforce this at regular intervals through all levels of the business 2. Invest in selecting the right change leaders, engaging them regularly and training them effectively. 3. Fully document AS-IS and TO-BE processes to help identify quantum of change 4. Undertake full OIA and training needs analysis and have business review and sign off on change impacts 5. Undertake cost benefit analysis to understand options and impacts 6. Understand when union reps need to be engaged and ensure they are engaged in an appropriate and timely manner 7. Engage change analysts experienced in large-scale transformation projects 8. Ensure change team is adequately resourced with appropriate mix of skills - e.g. change, communication, training etc.
13	There is a risk that training is not effective and does not deliver skills	1.Complete a Training Strategy for the TIBS project 2.OCM to undertake a Training needs analysis. 3.Develop internal Train the trainer 4. Business champions to deliver training 5 $1m Budgeted for training in Bus. Case
14	There is a risk that Government or AER make legislative or regulatory changes that negatively impact the Project	

15	There is a risk that the Project deliverables fail to meet Project and TasNetworks quality standards	1. Ensure that the TIBS project has a quality plan and this is socialised with the Project Governance group, Project team and vendors. 2. Manage the project to the Quality plan 3. Statement of work has detailed acceptance criteria
16	There is a risk that the number of interfaces required in the interim phase have been underestimated, along with their degree of complexity	1. Streamline interface design as much as possible 2. Accept manual workarounds in the interim where these are more cost-effective
17	There is a risk that mistakes made in ED are replicated in later phases	1. Ensure lessons learned are incorporated at the end of the phase 2. Assign responsibilities and ensure actions are completed before the next phase commences 3. Fatigue Management plan

Table 11: Project risks and propsed treatments

Appendix E: Letter from Battiston Consulting

Battiston Consulting

Level 2
390 St Kilda Road
Melbourne, VIC 3004
Australia

Phone +61 3 9867 7977

ABN 81 099 965 572

25 August 2015

Mr. Ross Burridge
General Manager, Finance and Business Services
Tasmanian Networks Pty Ltd
PO Box 606
Moonah
Tasmania 7009

ERP Deployment:- Best of Breed verses Integrated Single Supplier

Dear Ross

The decision between best of breed and integrated ERP has long been a basis for debate. However the landscape has altered significantly in recent years as the business community has sought to consolidate systems, streamline vendor management and demand solutions that can be easily upgraded while offering best practice processes as part of the solution.

Integrated ERP solutions are now universally recognized as the preferred option over best of breed and or bespoke solutions. The vendors of product to the electricity sector have been in the forefront of producing deep functionality fully integrated solutions. The market trends are for these solutions to provide ever-increasing functionality using industry best practice with local customization via configuration of the solution without code changes.

The trends in the electricity industry and the availability of off-the-shelf solutions have led to a move away from best of breed to integrated solutions. The reasons for this move can be summarized as follows:

- Businesses wish to simplify the structure and support requirements of their business and operational systems;
- The drive by business and the ICT suppliers is to deploy “out-of-the-box” (template) solutions configured to the needs of the client’s business. These configured templates have expansive functionality and reliable and regular upgrade and development paths;
- The investment that has been made and continues to be made by ERP suppliers to integrate and provide bolt-on additional functionality is enabling functionality expansion and access to a system that is fully integrated out-of-the-box;
- The leading ERP vendors are facilitating systems development for the electricity industry, taking leading edge best practice from across their client base and providing best practice systems to the market;

- The systems themselves do not provide a competitive advantage to any Distributor in themselves. However the way that clients use the systems to improve the way that they perform their customer and network management activities is the significant business payoff;
- Electricity distribution and transmission is not a unique business requiring unique systems. The exception is market systems that are in a state for development currently, but are the likely next development arena for the ERP vendors as the regulatory demands and changes stabilize.

The market currently has vendors with deep vertically integrated ERP solutions specifically designed for the electricity distribution and transmission sectors. These systems once acquired will provide enhanced functionality and support capabilities that will provide TasNetworks with a long-term solution without the need to maintain and rebuild bespoke systems for changes to operational conditions.

The move to an integrated ERP is strongly supported verses the building of a best of breed solution on the basis of integration simplification, upgrade and development paths, vendor and support consolidation and a likely lower total cost of ownership over the longer term.

Yours sincerely

Neil Elliot
Managing Consultant

cc: John Battiston, David Waterson

Appendix F: Wise Lord & Ferguson Probity Letter

Our Ref: G:data/audit/TasNetworks/RFP – Mr B Hardaker 17.08.2015

Wise Lord & Ferguson
Chartered Accountants
advice to advantage

17 August 2015

Attention: Mr B Hardaker
Tendering & Contracts Team Leader
Tasmanian Networks Pty Ltd
1 – 2 Maris Street
LENAH VALLEY TAS 7008

Dear Sir

Probity Adviser Report
Request for Proposal - TIBS Project

I attach the following report on my role as Probity Adviser to the above Request for Proposal (RFP).

1. As Probity Adviser I was present at the following meetings as part of the RFP process:

   - Industry Briefing Session - 24/03/2015
   - Evaluation Team Briefing Session - 21/05/2015

2. In addition I and Mr D McCarthy had informal meetings, discussion and correspondence with Mr B Hardaker, Ms S Wherrett, Mr C Morris, Ms P Bartlett, Ms K Bradshaw, Mr R Burridge, Ms A Masters and Ms W Bulfin during the RFP process.

3. Further I perused and provided input on the proposed Evaluation Process prior to its finalisation and reviewed the RFP Documents.

4. I advise that I have reviewed the Evaluation Report to which this letter is attached, and that in my view, for the matters subject to my review, it is an accurate record of the evaluation process and outcome.

5. It is my opinion that the RFP process was conducted fairly and equitably to all parties in a manner which ensured that issues of a probity nature were addressed and resolved on a timely basis and which identified and eliminated conflicts and potential conflicts of interest.

Please advise if you wish to discuss any of the matters raised or require any further detail.

Yours faithfully

H J GIBSON
PARTNER
WISE LORD & FERGUSON
CHARTERED ACCOUNTANTS

Appendix H: KPMG Project Quality Assurance Review

TasNetworks

TIBS Project Quality Assurance Review

October 2015
This report contains 17 pages
TN15-TIBSProjectQualityAssurance-Report1-1410

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Inherent Limitations

This report has been prepared as outlined in the Scope Section. The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, TasNetworks management and personnel/stakeholders consulted as part of the process.

KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.

KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.

Any reference to 'review' throughout this engagement letter / report has not been used in the context of a review engagement in accordance with review standards issued by the Australian Auditing and Assurance Standards Board.

The findings in this report have been formed on the above basis.

Third Party Reliance

This report is solely for the purpose set out in the Scope Section and for TasNetworks information, and is not to be used for any other purpose or distributed to any other party without KPMG's prior written consent.

This report has been prepared at the request of TasNetworks in accordance with the terms of KPMG's engagement letter/contract dated 26th August 2015. Other than our responsibility to TasNetworks, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility.

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1 Introduction and Summary of Findings

In planning for the integration of the transmission and distribution businesses, TasNetworks identified that it would not be practical to implement an integrated application solution immediately. As a result, TasNetworks has been operating a mix of pre-existing systems since it commenced operation whilst it has been assessing its longer term options. In this regard, consideration has been given to five possible solutions, with this being narrowed to two solutions for comparative purposes:

- Option 5 - Enterprise Resource Planning (ERP) system.
- Option 3 - Retain and Re-implement, and Replace WASP (RRRW).

Based on analysis of the two options available to it, Option 5 (ERP) has been identified as the preferred solution.

More recently TasNetworks, have been finalising a business case (including an Options Paper and Financial Model) for the system replacement for presentation to the Board with an implementation program to commence shortly thereafter.

To assist in this process, TasNetworks has engaged KPMG to conduct an independent assessment of:

- The overall process employed to determine a preferred option;
- The proposed project governance structure;
- The rationale taken in the Option 5 (ERP) vs Option 3 (RRRW) paper and the conclusions reached; and
- The financial model used for the analysis;

Subsequent discussions extended this assistance to conduct a high level assessment of the overall process undertaken to date having regard to contemporary approaches adopted for such processes.

1.1 Objective and Scope

More specifically, the scope of the four specific elements of this report is as follows::

- To assess whether the process used has been based on appropriate information and was reasonable from an end to end perspective.
- To assess the proposed project governance structure having regard to the size, scale and scope of the project.
- To review the rationale within the Option 5 (ERP) vs Option 3 (RRRW) paper and ensure that the reasoning behind the decision is reasonable and clearly articulated (please refer to *Appendix A: KPMG Brief* – Option 5 (ERP) vs Option 3 (RRRW) paper).
- To review the accuracy of the financial model to ensure that all calculations within it are correct and in line with the source data.

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1.2 Summary of Key Findings

We would summarise the key findings as follows:

- Whilst we noted some minor opportunities for refinement, the overall process for determining TasNetworks future technology platform and systems was consistent with what we would expect for projects of this scale. This includes a broad level of internal stakeholder involvement across all levels of the business and the open market commercial procurement process undertaken. With that said, moving forward, we would recommend an increased and more formal focus on risk management activities, ensuring that the Leadership Team and Board are involved in this process.
- The governance structure proposed by TasNetworks for the TIBS program is, in our experience consistent with good commercial project management governance structures across similarly complex programs of work.
- The Option 5 (ERP) vs Option 3 (RRRW) options paper clearly articulates the rationale and assumptions used to determine the capital expenditure for both the ERP and RRRW cases, noting that:
  - Whilst we provide further commentary on the total capital expenditure range for both cases below, at a line item level the capital expenditure for both the ERP and RRRW case would appear to be appropriate with clearly defined and consistent assumptions with both cases taking account for the relative risks of each approach and building these into the baseline capital expenditure estimates for each line item.
  - The data underpinning the ERP case is more robust than that available for the RRRW case. This reflects the more detailed market testing process that has been undertaken for the ERP case.
  - Given the less robust data available, Option 3 (RRRW) has been assessed in terms of a cost range, and this range is quite broad ($63.9m-$78.2m).
  - In our view and at an aggregate level, the cost for Option 3 (RRRW) is overly prudent at the upper end of the range. This is due to the combination of the following related matters:
    - The base capex numbers included for Option 3 (RRRW) provide a range for each line item. While individually these ranges are not unreasonable, when aggregated they effectively build in an element of "implied contingency" at the upper end of the ranges used. This impact is further compounded by the way the contingency and risk premium are then applied and this is more pronounced at the upper end of the range.
    - In real terms the combination of the risk and contingency amounts for Option 3 (RRRW) equate to a 40% total risk and contingency premium compared to 13.8% for Option 5 (ERP). While we accept the rationale for the inclusion of each of these elements (and accepting there is a level of commercial judgement involved in determining the quantum of these), we believe the aggregate contingency and risk premium is also quite prudent

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Given these factors, we believe Option 3 (RRRW) is more realistic at the lower end of the range.

- The analysis undertaken identifies Option 5 (ERP) as being preferred over Option 3 (RRRW). Our independent assessment supports this position on the basis that:
  - The overall cost of Option 5 (ERP) is lower than Option 3 (RRRW)
  - Even at the lower end of the range, the capital expenditure Option 3 (RRRW) is marginally more expensive than the Option 5 (ERP) option.
  - We also note that the analysis of the operating costs of both options reflect the fact that of Option 3 (RRRW) will be more expensive in ongoing operations. . Again, the outcomes of this analysis is consistent with our experience given the need to maintain and operate multiple applications and technical environments under Option 3 (RRRW) which do not provide the technical economies of scale available under Option 5 (ERP).
  - The analysis undertaken identifies that the business benefits that are expected to accrue are greater under Option 5 (ERP). Again, this analysis is consistent with our expectations and experience as the benefits that accrue from a single integrated ERP application are typically greater than those that accrue under a RRRW model.
  - Regardless of the financial benefit, there is a stronger strategic rationale for Option 5 (ERP). This is supported by the recent strategy work completed for TasNetworks by the independent strategy advisers, Battiston Consulting. This position is also consistent with our own experience on such matters.
  - In our experience, Option 5 (ERP) provides you with a lower overall risk due to the greater certainty on the costs, greater level of certainty regarding the technical integration of the ERP component modules and management of single software vendor and single SI partner.
- The initial review of the Financial Model identified a number of material errors that impacted the overall costs, benefits and net present values of the ERP case. However all of these items have been corrected in the revised model. The revised model is consistent with the underlying source data and accurate calculations are contained within the model.

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2 Overall Process Review

2.1 Scope

Our scope for the overall review was to:

- Assess the process used to decide on the implementation of an ERP solution and ensure that it was based on appropriate information and was reasonable from an overall end to end perspective

Our scope did not include the content or context of any discussions between TasNetworks and/or third parties to the process.

2.2 Activities Completed

In order to complete the scope identified we:

- Considered the process undertaken to identify and define potential systems solutions from August 2014.
- Considered the internal documentation provided outlining:
  - The process taken to date.
  - The key decisions made, when they were made and by whom.
- Considered the information provided to system solution vendors
- Considered the selection process (noting the Procurement Probity Report provided by Wise Lord & Ferguson).

2.3 Findings

In broad terms and based on the information provided to us the overall process has been in line with standard approaches taken by similar organisations seeking similar solutions across a broad range of industries.

In summary, this approach has been to:

- Review the existing technology platforms and architecture and determine their overall operational and strategic fit for the business in the long and short term based on core system requirements.
- Develop options for TasNetworks future technology platforms and architecture.
- Seek technology vendor and systems implementation partners' interest and capability to provide an appropriate technology solution to address TasNetworks requirements.
- Conduct an open market Request for Proposal process with vendors and systems implementation partners asked to provide detailed proposals addressing TasNetworks systems requirements and detailing the contractual terms and conditions for their relative solutions.

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- Assess the respondents proposals and shortlist vendors to conduct further due diligence and negotiation and on that basis determine the successful vendor

Throughout this process, all internal stakeholders have been engaged at an appropriate time with clearly communicated processes and decisions at all levels of the business from the relevant functional areas through to the TasNetworks Leadership Team and Board.

Whilst there were no material issues with the process we do note that:

- Moving forward, we would recommend an increased and more formal focus on risk management activities ensuring that the Leadership Team and Board are involved in this process so that they clearly understand where the project sits in relation to TasNetworks risk appetite.
- The February TIBS Board Papers did commit to the Board that KPMG would be appointed to "to review and advise on the costs and benefits proposed in the business case". This process was not however undertaken noting, however, KPMG completed a review of the mathematical and logical integrity of the financial model as part of this brief. A review of other commitments made to the Board throughout the process confirms that they have been met.
- The decision to move forward with a technology platform replacement and organisational transformation program was made prior to the completion of the TasNetworks technology strategy. Whilst this may be viewed as unusual, it is not without precedent in highly complex organisations during period of significant change where clear leadership and decision making is required to continue to move the business forward. Further, we understand that this strategy work is supportive of an ERP solution.
- It has been the intention to engage a QA adviser to oversee this program of work and KPMG have now been engaged in this capacity with this brief being the first element of that work. With future significant programs like this we would recommend TasNetworks appoint an advisor to a QA adviser at the commencement of the process in order to ensure continuity and the integrity of the overall process rather than conducting a post event review and procurement process review alone.

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3 Proposed Governance Model

3.1 Scope

Our scope for the proposed TIBS Project Governance Structure was to:

- Consider the proposed project governance structure, underlying roles and responsibilities, decision making and escalation processes.
- Identify any opportunities to improve the proposed governance structure or realign roles, responsibilities and decision making and escalation processes in order to ensure effective project governance.

3.2 Activities Completed

In order to complete the scope identified we:

- Considered the proposed TIBS Project Governance Structure documentation provided noting the roles, responsibilities, reporting relationships and composition of the proposed structure.
- Assessed the proposed governance structure against other similar programs of work.
- Identified opportunities for improvement.

3.3 Findings

The governance structure proposed by TasNetworks for the TIBS program is broadly consistent with good commercial project management governance structures across similarly complex programs of work both in the energy industry and more broadly. More specifically the:

- Project governance roles, responsibilities and reporting relationships are clearly defined.
- Membership of the governance forums are clearly identified and appear appropriate given the scale and scope of the project.

We would also highlight the following matters for consideration:

- While we believe the governance structure is sound it will be important to monitor it in practice and apply it with some flexibility. In particular, there is likely to be a need for the proposed governance structure to vary across the timeframe of the TIBS project due to changes in the work being conducted at points in time and the appropriateness of the Governance forums composition for them.
- Providing further clarity for the role that the Board will perform in regard to TIBS project governance.
- Given the length of the project, that delegates for the critical roles in the governance structure are clearly identified at commencement of the project and are reviewed on regular interval.

On a more general basis, we would highlight that the effectiveness of the governance structure will be dependent upon how it is put into practice and ensuring that the consultation and decision

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making processes are implemented in a manner that underpins the long term objectives of the governance structure and the overall program of work.

This includes that:

- All stakeholders are engaged to an appropriate level for the key actions and decisions required.
- Decisions are made within the project governance structure and are transparent at all points in time.
- Risks to the project are clearly identified and communicated at all levels of the project governance structure both at commencement of the project and an ongoing basis.
- Issues that impact the delivery of the project are identified and communicated up through the governance structure in a timely manner (depending on the level of impact).

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4 Board Paper Review: *KPMG Brief – Option 3 (RRRW) vs Option 5 (ERP) Paper*

4.1 Scope

Our scope for the briefing paper was to:

- Consider the briefing paper (please refer to *Appendix A: Option 3 (RRRW) vs Option 5 (ERP) Paper*) and ensure the rationale is appropriate and that the assumptions are reasonable, consistent and clearly articulated.

Identify any major items or issues that are not clear or may have been excluded from the Paper.

4.2 Activities Completed

In order to complete the scope identified we:

- Considered the briefing paper and provided iterative feedback on the various drafts presented.
- Considered the documentation provided to the Steering Committee, Leadership Team and Board since the commencement of the IBS project.
- Met with the TIBS Project Director, Project Manager, Technology Advisor and Project Analyst to review the rationale and assumptions used in order to develop the briefing paper and supporting financials.

4.3 Findings

We note that the briefing paper was developed at the request of the Board in order to conduct a hindsight review of the initial decision to move forward with an ERP systems implementation in preference to a RRRW systems implementation, having regard to the further information that is now available.

In presenting these findings we would note that we have iterated through a number of drafts of the paper with management. This process has resulted in progressive refinement of the document culminating in the final version as presented and enclosed as Appendix A.

4.3.1 Rationale of the Paper

The rationale used in the development and structure of the briefing paper is, in our experience, appropriate having regard to the purposes of the paper (that being as hindsight based review of the initial decision to move forward with an ERP systems implementation).

It provides a high level assessment of the relative costs of an ERP technology implementation (Option 5) compared to a RRRW technology implementation (Option 3) and identifies risk factors relevant to the choice available, noting that:

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- The base case of continuing to run TasNetworks existing core application portfolio was identified by the TasNetworks Leadership Team and Board as not being an option (and we accept that as reasonable).
- The development and the modelling of both options were based on the functional scope of the ERP systems implementation. This has been done in order to provide comparable scenarios and therefore assumes that none of TasNetworks existing core applications would be retained in their current form. For the purposes of the analysis this is a reasonable assumption in that it provides a "like-for-like" comparison. However, it should be appreciated that there could be other scaled down RRRW scenarios available noting that, a scaled down scenario would naturally provide scaled down benefits.
- There is significantly more certainty in respect to the financial information available for the ERP solution given the more detailed market testing process that has been undertaken for this. On that basis, the financial figures for the ERP case have been presented as finite. However, the financial assessment of Option 3 (RRRW) is presented on the basis of a broad cost range. Given the circumstances, we believe this conceptual approach is appropriate but make some comments below regarding its application and the reasonableness of the resulting range.

4.3.2 Reasonableness of assumptions

The comparative estimated capital expenditure for Option 3 (RRRW) and Option 5 (ERP) are shown in the table below, demonstrating each of their baseline capital expenditure (inclusive of the business case development cost), contingency, risk premium and total expected capital expenditure.

Table 1: Total Expected Cost

	Option 5 (ERP)	**Option 3 (RRRW)**
Base Capex	$54.3m*	$45.8m – $56.0m
Contingency	$7.5m	$5.4m - $6.6m
Risk Premium	$0	$12.7m - $15.6m
Total Expected Capex	$61.8m	$63.9m - $78.2m

*(*There is an additional $3.5m contingency contained within the systems integrator contract however this is a fixed cost contract and must be paid)*

The assumptions driving the base capital expenditure at a line item level for both Option 3 (RRRW) and Option 5 (ERP) are consistent and clearly defined for each option and, from our experience, would appear to be reasonable. Further, both cases take account for the relative risks of each approach and build them into the baseline capital expenditure estimates for each line item.

However, in our view and at an aggregate level, the cost for Option 3 (RRRW) is overly prudent at the upper end of the range. This is due to the combination of the following related matters:

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- The base capex numbers included for Option 3 (RRRW) provide a range for each line item. While individually these ranges are not unreasonable, when aggregated they effectively build in an element of "implied contingency" at the upper end of the ranges used. This impact is further compounded by the way the contingency and risk premium are then applied and this is more pronounced at the upper end of the range.
- In real terms the combination of the risk and contingency amounts for Option 3 (RRRW) equate to a 40% total risk and contingency premium compared to 13.8% for Option 5 (ERP). While we accept the rationale for the inclusion of each of these elements (and accepting there is a level of commercial judgement involved in determining the quantum of these), we believe the aggregate contingency and risk premium is also quite prudent

In presenting the above commentary we would note the following:

- The Option 5 (ERP) contingency has been based on a 95% probability with no risk premium, whereas the contingency for Option 3 (RRRW) is an allowance and has an additional risk premium applied.
- We acknowledge that an additional risk premium is appropriate for Option 3 (RRRW) compared to Option 5 (ERP).
- Notwithstanding the apparent inconsistency in this approach and accepting there are commercial judgements which underpin these assessments, for the purposes of this review, we have considered the overall contingency and risk premium amounts in a consolidated way.

Given the above factors, we believe Option 3 (RRRW) is more realistic at the lower end of the range presented. However, even at the lower end of the range, Option 3 (RRRW) is more expensive than Option 5 (ERP).

4.3.3 Concluding comments

The analysis undertaken identifies Option 5 (ERP) as being preferred over Option 3 (RRRW). Our independent assessment supports this position on the basis that:

- The overall cost of Option 5 (ERP) is lower than Option 3 (RRRW)
  - Even at the lower end of the range, the capital expenditure Option 3 (RRRW) is marginally more expensive than the Option 5 (ERP) option.
  - We also note that the analysis of the operating costs of both options reflect the fact that of Option 3 (RRRW) will be more expensive in ongoing operations. . Again, the outcomes of this analysis is consistent with our experience given the need to maintain and operate multiple applications and technical environments under Option 3 (RRRW) which do not provide the technical economies of scale available under Option 5 (ERP).
  - The analysis undertaken identifies that the business benefits that are expected to accrue are greater under Option 5 (ERP). Again, this analysis is consistent with our expectations and experience as the benefits that accrue from a single integrated ERP application are typically greater than those that accrue under a RRRW model.

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- Regardless of the financial benefit, there is a stronger strategic rationale for Option 5 (ERP). This is supported by the recent strategy work completed for TasNetworks by the independent strategy advisers, Battiston Consulting. This position is also consistent with our own experience on such matters.
- In our experience, Option 5 (ERP) provides you with a lower overall risk due to the greater certainty on the costs, greater level of certainty regarding the technical integration of the ERP component modules and management of single software vendor and single SI partner.

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5 Financial Model

5.1 Scope

Our scope for the financial model was to:

- Consider the Financial Model (developed to assess the financial impacts of the Best of Breed and ERP options) for accuracy and consistency including validation of the figures input into the model from their source data.
- Identify any issues regarding the financial inputs and underlying financial calculations and analysis.

5.2 Activities Completed

In order to complete the scope identified we:

- Considered the financial cash flow model provided (ERP Case vs Base Case).
- Considered the overall logic applied in the financial models.
- Considered the calculations used within the financial models for accuracy and consistency.
- Identified the source data for the financial models and confirmed that it was accurately represented within the model (noting that this did review did not extend to confirming that the source data was correct).

5.3 Findings

The initial review of the Financial Model identified a number of material errors that impacted the overall costs, benefits and net present values of the ERP case however all of these items have been corrected in the revised model.

For clarity, the material errors identified were:

- Inclusion of $33m of IT development cost avoidance as revenues in the ERP case which should not have been included.
- Exclusion of $11m of ongoing IT costs in the ERP case which should not have been excluded.
- Inclusion of $2m of inventory reduction in first two years of the ERP case (where only the inventory holding cost should be taken into account) which should not have been included.
- Depreciation on capital expenditure commencing prior to the expenditure occurring.

On that basis we note that:

- The source data for the development of the financial model was identifiable and consistent.
- The logic applied in the development of the financial model is sound.
- The calculations within the financial model are materially consistent and accurate.

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We do however note that the financial model does assume efficiency benefits (FTE reduction) of circa $60m over a ten year period.

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6 Appendix A: KPMG Brief – ERP vs RRRW Paper

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Appendix I: Letter from Shareholders

Treasurer

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Ph +61 3 6165 7670
Email treasureroffice@dpac.tas.gov.au

Tasmanian Government

Dr D Norton AO
Chairman
Tasmanian Networks Pty Ltd
PO Box 606
MOONAH TAS 7009

6 AUG 2015

Dear Dr Norton

Tasmanian Networks Integrated Business Solution

I understand that Tasmanian Networks is proposing to implement an integrated business system to fully align and integrate Tasmanian Networks' processes and systems and to assist the business in achieving its vision of 'One Business'. I note that an integrated business system is a 'must deliver' component of the five strategic initiatives outlined in Tasmanian Networks' 2015 Corporate Plan.

As you would appreciate, in recent times there has been significant public scrutiny of IT system developments undertaken by both Government agencies and Government businesses, especially in terms of cost overruns and not being able to deliver the functionality originally intended. Given this, I consider that the project should be subject to close scrutiny by the Board to ensure that it is both appropriate and cost effective for the business.

While the project does not technically fall under the Capital Investment Guidelines, as the investment was raised in both the most recent distribution and transmission regulatory proposals, I expect the Board to consider the business case in the context of the Guidelines.

Therefore, the Board should undertake appropriate due diligence in respect of the project. In this regard, the business case should provide, amongst other things:

- an assessment of the expected rate of return and projected cash flows;
- details of expected process efficiencies and benefits;
- details of significant risk exposures and the ability of the business to manage such risks;
- an assessment of alternative options that have been considered and why these have been discounted; and
- details of the ability of the business to resource the project.

I understand that the Board will consider the business case at its meeting on 27 August 2015.

Once the Board has approved the business case and has agreed to progress the project, I expect the Board to formally advise the Shareholding Ministers, in writing, that all of the matters contained in the Capital Investment Guidelines have been satisfactorily dealt with and that the project will deliver the expected efficiencies and be completed within budget.

Yours sincerely

Hon Peter Gutwein MP
Treasurer

cc Hon Matthew Groom MP, Minister for Energy

Appendix J: TIBS Governance Framework

TasNetworks Integrated Business Solution

Proposed Governance Framework

October 15, 2015

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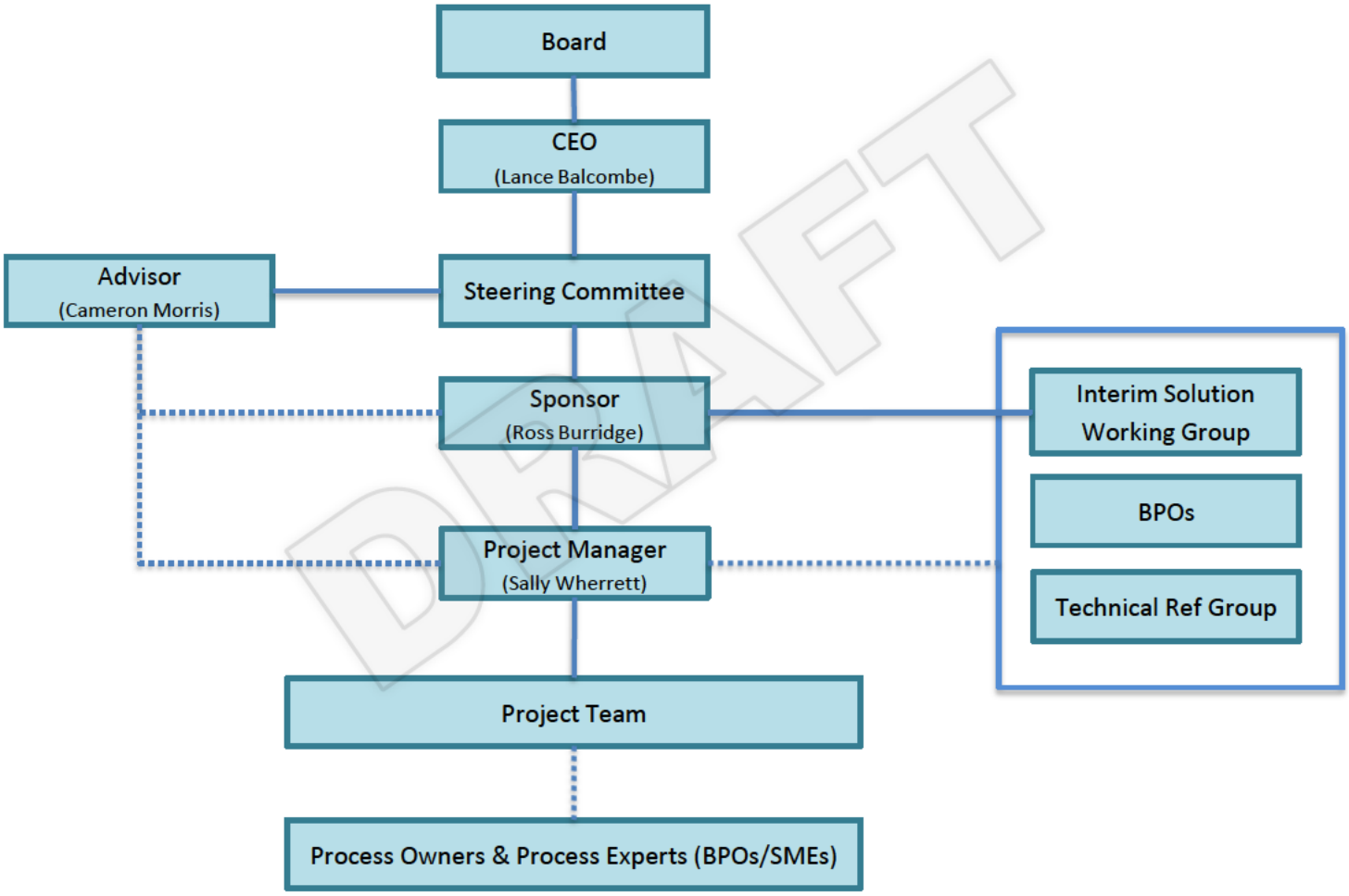
TasNetworks
Delivering your power

Project Governance

As presented to TIBS Steering Committee 12/2/2015



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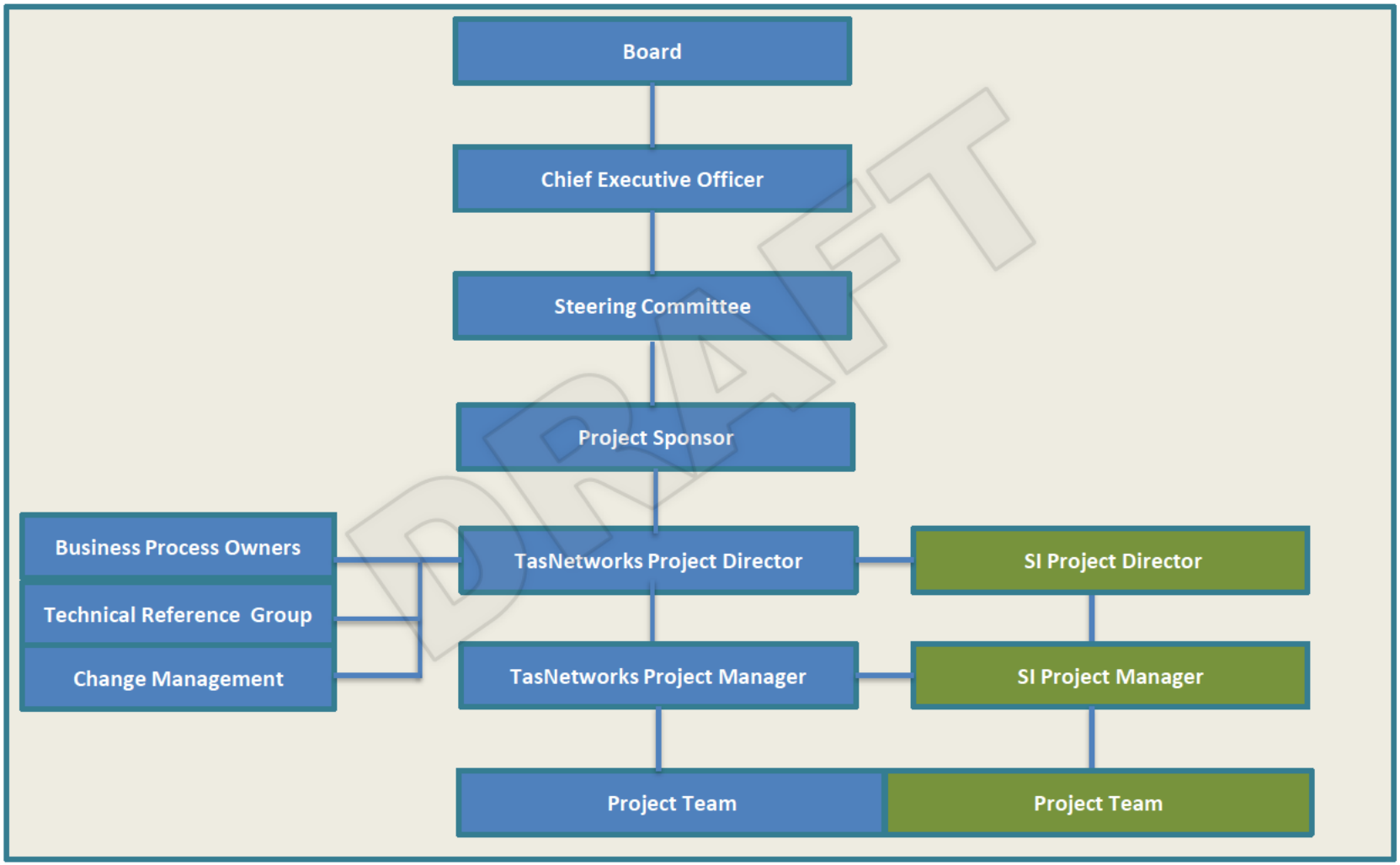
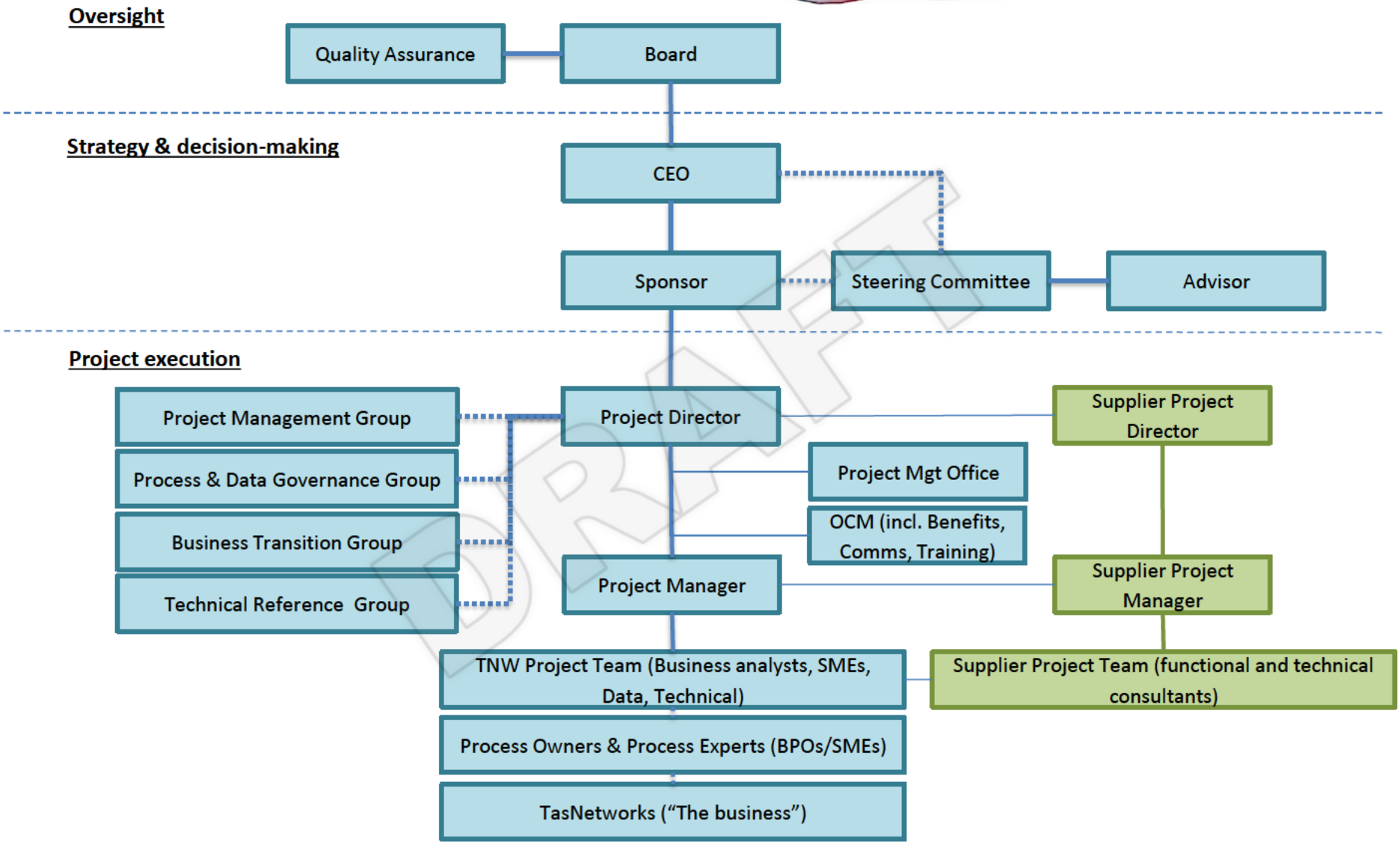
Implementation Governance Model

As presented to TIBS Steering Committee 12/2/2015



Proposed TIBS Project Governance Model



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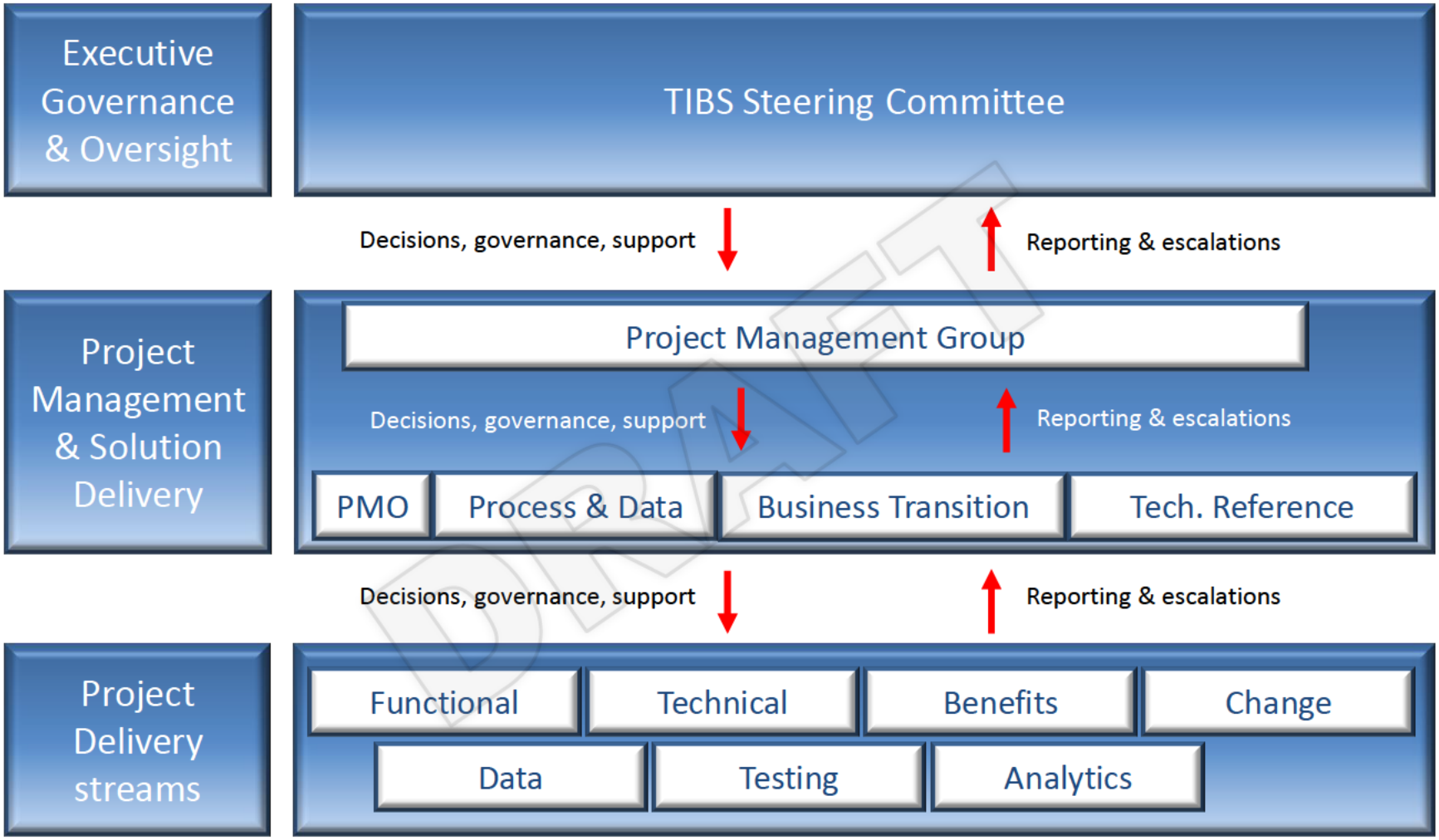
Proposed Governance Structure



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Objective

The TIBS Governance Framework is designed to ensure that:

- Decisions are made in line with the overall business strategy and transformation objectives
- There is a clear definition of roles, accountabilities & responsibilities between project team members
- Governance forums are empowered to decide, resolve and act
- Reporting and decision-making is transparent, and information is available to all stakeholders
- Escalation paths are clearly defined
- Risks and issues are reviewed and responsibility assigned
- Required approval and direction is obtained at each appropriate stage of the project
- Decision-making bottlenecks are minimised while ensuring a robust oversight and review process
- The business is consulted at all stages of the project
- There is a strong focus on the transformational elements of the project via the Business Transition Group.

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Governance Roles

Proposed definitions & terms of reference

Sponsor

- Provides effective leadership to ensure the success of the project.
- Works with the Project Director to:
    - Provide overall direction and management;
    - Provide accountability for the success of the project;
    - Provide a 'voice' to outside world: disseminate information from and convey information to the project;
    - Approve all major plans and authorises changes outside of tolerances;
    - Ensure resources are available;
    - Take 'ownership' of one or more of the identified risks (i.e. monitor the risks and keep the Project Manager informed);
    - Act as the ultimate escalation point for project execution issues which cannot be resolved through discussion, mediation and negotiation.

Responsibilities

- Responsible for ensuring that the business devotes the necessary executive, operational and financial commitment to the Project.
- Reviews and approves key deliverables, project decisions and change requests that have been escalated by the Project Director.
- Resolves cross-organisation project issues and conflicts that have been escalated by the Project Director.
- Briefs CEO on significant project milestones / achievements during CEO / Sponsor meeting (conducted prior to Steering Committee)

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Governance Roles

Proposed definitions & terms of reference (cont'd)

Steering Committee

- Has collective responsibility and accountability for decision making and for the success of the project
- Escalates strategic and /or business-wide matters to CEO where necessary
- Manages by exception to ensure minimum demands on members' time while enabling them to fulfil their responsibilities to the project.

Responsibilities

Chair

- The chair is responsible for coordinating meetings, issuing agendas and meeting papers, ensuring meetings are minuted and distributing the meeting minutes and attachments.

Steering Committee

- Monitors and reviews the project at regular scheduled meetings;
- Provides assistance to the Project Director when required;
- Controls project scope as issues emerge forcing changes to be considered;
- Ensures that scope aligns with agreed business and stakeholder requirements;
- Resolves high-level project conflicts and disputes, especially matters which impact the overall system design or work practices post go-live;
- Formal acceptance of key project deliverables;
- Supports CEO reporting to Board;
- Budget oversight.

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Governance Roles

Proposed definitions & terms of reference (cont'd)

CEO

- Provides leadership and strategic direction to ensure the project continues to align with the organisation's business strategy and its priorities
- Assists in promoting business transformation throughout the organisation
- Ultimate decision making authority on business-wide matters referred by the Steering Committee

Responsibilities

- Approves all customisations to the solution
- Controls and approves use of project contingency
- Seeks board approval where:
    - A change to the solution may have a significant, material impact on benefits or the business case
    - An increase in the amount of contingency is required
- Informs the board of any changes in key dates (e.g. milestones) and when the project contingency is utilised

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Governance Roles

Proposed definitions & terms of reference (cont'd)

Board

- The Board will approve the TIBS business case and act as an escalation point for the CEO. The Board will receive confirmation from the Steering Committee at key milestones that the project will be able to proceed to the next phase.
- Ensure the project remains aligned with the approved Business case.
- Reviews and approves /rejects any changes escalated by the CEO.

Responsibilities

- Approves the TIBS Business Case and;
- Acts as a point of escalation for the CEO where:
    - a change to the solution may have a material impact on benefits or the Business Case;
    - an increase in the amount of contingency is required; and/or
    - there is a change to key dates (e.g. milestones) and the project contingency is utilised.

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Governance Roles

Proposed definitions & terms of reference (cont'd)

Steering Committee *

Role	Name
Sponsor, FBS GM, Chair	Ross Burridge
TNW Project Director	Michael Westenberg
UXC Project Director	Nina Genikis
TNW Leader, IT	Nigel Bailey
SAM GM	Wayne Tucker
WSD GM	Natasha Brown
P&P GM	Justine McDermott
Strategy & Stakeholder Relations GM	Bess Clark
Customer Engagement & Network Ops GM	Mike Paine
Company Secretary & General Counsel	Phillippa Bartlett
OCM Lead	Amy Tehovnik

** Other participants by invitation, as required – e.g. SAP*

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Governance Roles

Proposed definitions & terms of reference (cont'd)

Project Management Group

- Monitors the project schedule and progress of work
- Provides input to and assists in resolving project risks and issues and removing roadblocks
- Reviews and approves / rejects business / process deliverables.

Responsibilities

Chair

- The chair is responsible for coordinating meetings, issuing agendas and meeting papers, ensuring meetings are minuted and distributing the meeting minutes and attachments.

Project Management Group

- Acts as the voice of the business within the project team;
- Acts as an advisory board for all business issues and decisions that impact the project as well as dependent or related projects;
- Communicates and reviews progress, resolves / reviews issues, mitigates / communicates risks and addresses issues impacted by other initiatives;
- Reviews and recommends proposed changes to the solution required to achieve business objectives and benefits;
- Ensures that project business process architecture is supportable within the wider context of TasNetworks.

Is supported by

- The TNW Project Director and TNW Stream Leads (Process, OCM and Technical).

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Governance Roles

Proposed definitions & terms of reference (cont'd)

Project Management Group*

Role	Name		
Chair	TNW Project Director	Member	TNW PMO Manager
Member	TNW Project Manager	SAM BPO	From BPO Group
Member	SI Project Manager	WSD BPO	From BPO Group
Member	TNW Technical Lead	P&P BPO	From BPO Group
Member	TNW Process Lead	FBS BPO	From BPO Group
Member	TNW Change Lead		

** Other participants by invitation, as required*

BPO Group**

Name	Area	Name	Area
Amy-Marie Parker	FBS	Steven Jarvis	SAM
Paul McTaggart	FBS	Mark Richardson	SAM
Miriam Moreton	FBS	Chris Arnold	WSD
Sandra Crouch	P&P	Michelle Downham	WSD
Nicola Jones	P&P	Craig Mackey	WSD
Rachael Hull	P&P	Michael Ash	WSD
Nicole Eastoe	SAM	Eddie Jager	WSD

*** Members of Project Mgt Group TBD*

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Governance Roles

Proposed definitions & terms of reference (cont'd)

Business Transition Group

- Assesses TasNetworks' readiness for change activities.
- Coordinates and reviews effectiveness of project change strategies.
- Identifies and addresses issues related to change, communication and training.

Responsibilities

Chair

- The chair is responsible for coordinating meetings, issuing agendas and meeting papers, ensuring meetings are minuted and distributing the meeting minutes and attachments.

Business Transition Group

- Brings a "whole of business" approach to the planning and management of people-related aspects of the project
- Oversees the evolution of the new processes and systems from a cross-organisational perspective.
- Reviews the project within the broader business context, to identify issues/activities that will impact or be impacted by the project.
- Acts as a sounding board for the project team on OCM-related strategies and approaches
- Provides feedback to the project on business issues and opportunities and advises on approaches to minimise change-related risks
- Raises issues with, and provides feedback to, the Steering Committee on project activities and their impact from an overall business perspective
- Members act as ambassadors and promote the project and its benefits to the business
- Acts as a reference group for the change management stream of the project

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Governance Roles

Proposed definitions & terms of reference (cont'd)

Business Transition Group*

Note: Membership of this group will evolve throughout the different stages of the project

Role	Name
Chair	TNW OCM Lead
Member	P&P BPO
Member	TNW Operational & Leadership Capability
Member	TNW Comms Lead (Release phase only)
Member	TNW Training Lead (Release phase only)

** Other participants by invitation, as required*

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Governance Roles

Proposed definitions & terms of reference (cont'd)

Process and Data Governance Group

- Make decisions for the whole of business on process and data governance.

Responsibilities

Chair

- The chair is responsible for coordinating meetings, issuing agendas and meeting papers, ensuring meetings are minuted and distributing the meeting minutes and attachments.

Process and Data Governance Group

- Develops and monitors an overall strategic plan for enterprise-wide process and data management.
- Oversees enterprise business process and business data decisions
- Monitors the effectiveness and timeliness of business process and business data decisions for the project.
- Is accountable for effective business process and data management across the organisation
- Is the point of escalation for cross-process and cross-data issues and decisions
- Is accountable for ensuring alignment between process governance and data governance decisions
- Approves changes to the TasNetworks Business Process Model – Level 1 and Level 2 processes
- Members act as ambassadors and promote the project and its benefits to the business

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Governance Roles

Proposed definitions & terms of reference (cont'd)

Process & Data Governance Group*

Role	Name
Chair	Michael Westenberg
Member	Sally Wherrett
Member	TNW Technical Lead (TBC)
Member	SAM BPO
Member	WSD BPO
Member	P&P BPO
Member	FBS BPO

** Other participants by invitation, as required*

BPOs**

Name	Area	Name	Area
Amy-Marie Parker	FBS	Steven Jarvis	SAM
Paul McTaggart	FBS	Mark Richardson	SAM
Miriam Moreton	FBS	Chris Arnold	WSD
Sandra Crouch	P&P	Michelle Downham	WSD
Nicola Jones	P&P	Craig Mackey	WSD
Rachael Hull	P&P	Michael Ash	WSD
Nicole Eastoe	SAM	Eddie Jager	WSD

** *Members of Process & Data Governance Group TBD*

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Governance Roles

Proposed definitions & terms of reference (cont'd)

Technical Reference Group

- Ensures adherence to TNW ICT standards and drives these through the business
- Provides input to the project team on technical issues (including architecture, data (from a technical perspective), infrastructure and support)
- Reviews and approved / rejects technical deliverables.

Responsibilities

Chair

- The chair is responsible for coordinating meetings, issuing agendas and meeting papers, ensuring meetings are minuted and distributing the meeting minutes and attachments.

Technical Reference Group

- Acts as an advisory board for all technical and architectural issues and decisions that impact the project as well as dependent or related projects;
- Issues necessary architecture principles, standards and mandates;
- Acts as the escalation point for key architecture and technical decisions and exemptions to standards;
- Reviews and recommends key security strategies, policies, standards & major architecture decisions;
- Reviews and recommends appropriate changes to applications, infrastructure, integration, data strategy, standards and major architecture decisions for the project;
- Ensures that project solution architecture is supportable within the wider context of TasNetworks;
- Communicates, champions and ensures IT principles are enforced within the project as well as dependant or related projects.

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Governance Roles

Proposed definitions & terms of reference (cont'd)

Technical Reference Group*

Role	Name
Chair	TNW Technical Lead (TBC)
Member	SI Technical Lead (TBC)
Member	Paul Sainsbury (architecture)
Member	Steve Mason (infrastructure)
Member	Hilary Soloff (support)
Member	Nathan Godfrey (data / BI)
Member	TBD (operational technology)

** Other participants by invitation, as required*

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Project Governance

Proposed definitions & terms of reference (cont'd)

Agenda Items

- Must be forwarded to the relevant chair by COB five working days prior to the next scheduled meeting.
- Agenda & attachments will be distributed at least two working days prior to the next scheduled meeting.

Minutes & Meeting Papers

- The minutes of each meeting will be prepared by the chair or approved delegate.
- Full copies of minutes and attachments will be provided no later than two working days following each meeting.

Frequency of Meetings

- As per agreed meeting schedule.
- Out-of-session meetings may be scheduled with a minimum 7 days' notice.
- Operational meetings may be convened as required.

Proxies to Meetings

- Members may nominate a proxy if they are unable to attend.
- The chair must be informed of the substitution at least three working days prior to the meeting.
- Proxies will have voting rights and are expected to provide relevant comments/feedback on behalf of the member they are representing.

Quorum Requirements

- The minimum number of members required for a meeting to be recognised as an authorised meeting and for recommendations or resolutions to be valid is as follows:
    - Steering Committee: 4, including at least 2 general managers
    - Project Management Group: 4
    - Process and Data Governance Group: 3
    - Business Transition Group: 3
    - Technical Reference Group: 3

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Decision Authority Summary

The table below summarises key decision making authorities and escalation points:

Decision Area	Stream Lead	Project Manager	Project Director	Steering Committee	CEO	Board
Project Scope						
Change to agreed scope item (No impact schedule/cost)	A	I				
Increase in baseline scope (Impact to schedule/cost)	E	E	A	I		
Key changes to scope or deliverables that have a significant impact on business processes	E	E	E	A		
Approval of Stage Gate Criteria			E	A	I	
Approval of customisations	E	E	E	E	A	
Project Solution & Benefits						
Change to solution that has minimal impact on benefits	E	A	I			
Change to Solution that has minor impacts on benefits	E	E	A	I		
Change to Solution that has a significant impact on benefits	E	E	E	E	E	A
Project Schedule						
Change contained within stream - no impact on schedule	A	I				
Change impact on stream but no impact to overall schedule or milestones	E	A	I			
Change impact on project schedule or milestones	E	E	E	E	A	I
Project Budget						
Change contained within project - no impact to budget	E	A	I			
Change requires additional funding / use of contingency	E	E	E	E	A	I
Change requires additional funding - increase in contingency	E	E	E	E	E	A

Key: A = Approve | E = Escalate | I = Inform

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Governance Meeting Schedule

Meeting Schedule

Meeting Forum	Frequency	Attendees	Inputs required
Board Meeting	Aligned with project milestones	TNW Board members	TIBS Board Update
TasNetworks Leadership Team	Monthly	TLT	TIBS Status Report
Steering Committee	Monthly (or as required)	As per slide 9	TIBS Status Report including Project Director's commentary
CEO / Sponsor meeting	Monthly (or as required) (before Steering Committee Meeting)	CEO, Sponsor	TIBS Status Report including Project Director's commentary
Project Management Group	Weekly	As per slide 11	TIBS Stream Lead Status Reports Updated Issues and Risk Registers Updated project schedule
Business Transition Group	Weekly	As per slide 13	Minutes and agenda
Process & Data Governance Group	Weekly	As per slide 15	Minutes and agenda
Technical Reference Group	Monthly (or as required)	As per slide 17	Minutes and agenda
Project Stream Meeting	Weekly	TNW, SI Project Managers TNW, SI Stream Leads	Minutes and agenda Updated project schedule Updated Issues and Risk Registers
TIBS Project Team	Weekly	All team members	Minutes and agenda Updated project schedule

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Governance Meeting Schedule

The table below summarises the project's key decision making forums and attendees:

ATTENDEES	CEO / Sponsor (m)	Steering Committee (m)	Project Mgt Group (w)	Business Transition (w)	Process & Data Governance (w)	Technical Reference (m)
CEO	x					
GM FBS	x	x				
GM SAM		x				
GM WSD		x				
GM P&P		x				
GM S&SR		x				
GM CE&NO		x				
Company Secretary		x				
TNW Leader, IT		x				
TNW Project Director		x	x		x	
TNW Project Manager			x			
TNW Process Lead			x		X	
TNW Tech Lead			x			x
TNW Change Lead		x		x		
TNW Change Manager			x	x		
SAM BPO			x		x	
WSD BPO			x		x	
FBS BPO			x		x	
P&P BPO			x	x		
Tech Ref Group members						x
Business Transition Group members				x		
PMO Manager		x	x			
SI Project Director		x				
SI Project Manager			x			

(m) = Monthly, (w) = weekly

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Project Reporting

Reporting Responsibilities

Reporting requirements (and the responsible persons) are as follows:

TIBS Board Update – TNW Project Director

TIBS Status Report

- Details (TNW & SI Project Manager)
- Overall Status (TNW & SI Project Manager)
- Executive Summary (TNW & SI Project Manager)
- Schedule Update (TNW & SI Project Manager)
- Risks requiring attention (TNW Project Office)
- Issues requiring attention (TNW Project Office)
- Change Requests (TNW Project Office)
- Stream Summaries (TNW & SI Project Manager)
- Project Budget Details (TNW Project Office)
- Actions to be considered (TNW & SI Project Manager)
- Key deliverables/milestones (TNW Project Office)

TIBS Stream Lead Status Reports – TIBS Stream Leads (Process, Technical, Change)

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