



TransGrid

TransGrid Risk Appetite Statement

Contents

- 1. Purpose3
- 2. Risk appetite statement3
- 3. Change history8
- Appendix A: Risk matrix.....8

1. Purpose

The Risk Appetite Statement (RAS) defines the type and degree of risk that TransGrid is willing to accept for its stakeholders in pursuit of its strategic and operational objectives. Risk appetite is the level of risk that the Board is willing to accept while pursuing its objectives, and before any action or controls are determined to be necessary in order to reduce the risk. Risk tolerance is the measurement of how much a loss the Board is willing to experience given their existing assets and other risks they currently face. The Risk Appetite Statement is the method by which the Board provides management with the acceptable level of risk that it is prepared to tolerate.

2. Risk appetite statement

TransGrid's principal risks are those risks which could affect the performance, future prospects or reputation of the company. Each of these risks has a risk appetite statement which identifies the events that are not tolerated as well as the accepted risk appetite as approved by the Board.

Material events noted in the risk appetite statements are defined as "Extreme" as per the Board approved TransGrid Risk Management Framework.

The accepted risk appetite is based on the planned risk rating for each Principal Risk. This is the level of risk once planned treatments are successfully applied.

Figure 1: TransGrid Principal Risk Matrix

TransGrid Risk Matrix						
		CONSEQUENCES				
		Minimal 1	Minor 2	Moderate 3	Major 4	Catastrophic 5
LIKELIHOOD	Almost Certain 5	Low	Medium	High	Extreme	Extreme
	Likely 4	Low	Medium	High	High	Extreme
	Possible 3	Low	Medium	Medium	High	High
	Unlikely 2	Low	Low	Medium	Medium	Medium
	Rare 1	Low	Low	Medium	Medium	Medium

Risk Rating Key

● Residual Risk Rating ○ Planned Risk Rating

Control Effectiveness Rating

○ Effective ○ Partially Effective ○ Ineffective

1. Serious Failure of Health, Safety and Environment

2. Business model disruption

3. Network Reliability

4. Protective and Cyber Security

5. Licence or Major Compliance Breach

6. Network Safety

7. Workforce Capability

8. Access to Capital

9. Regulatory

10. Social Licence to Operate

11. Non-Prescribed Growth

12. Major Projects

Risk No.	Principal Risks	Risk Description	Risk Appetite	Risk Tolerance
1	Health, safety & environment	There is a risk that TransGrid could have a serious health, safety and/or major environmental incident involving our workforce, or those of our contractors.	As Low As Reasonably Practicable	TransGrid has no tolerance for risks which could result in loss of life, permanent disability or significant environmental damage as a result of its activities.
			TransGrid requires all health, safety and environmental risks to be managed to as low as reasonably practicable.	
2	Disruption	There is a risk that TransGrid's business model may be disrupted by future technology, energy policy development, shifting consumer expectations and consumer engagement within the energy market.	HIGH	TransGrid has no tolerance for disruption risks which could result in a material impact on our financial performance and access to debt financing.
			TransGrid requires disruption risks to be managed by systematically monitoring the external business environment to identify threats and opportunities and developing strategies to respond within TransGrid's Strategic Advocacy, Corporate Strategy and Future Energy work programs. The Board accepted risk appetite for this risk is 'High'.	
3	Network reliability	There is a risk that the operation and reliability of TransGrid's network is disrupted.	MEDIUM	TransGrid has no tolerance for an event leading to a material loss of supply event.
			All network reliability risks must be reduced to as low as reasonably practicable by meeting the obligations and guidelines provided by regulatory authorities. The Board accepted risk appetite for this risk is 'Medium'.	
4	Protective and cyber security	There is a risk that critical IT or OT systems are subject to a cyber or physical attack.	MEDIUM	TransGrid has no tolerance for protective and cyber security risks that could result in a material safety, compliance, network reliability and/or social licence consequences.
			All protective and cyber security risks must be managed by continually enhancing insider and external threat protection, data loss prevention, system access (both logical and physical), infrastructure / site access and network strengthening. The Board accepted risk appetite for this risk is 'Medium'.	

Risk No.	Principal Risks	Risk Description	Risk Appetite	Risk Tolerance
5	Licence or major compliance breach	There is a risk that TransGrid breaches its operating licence obligations or a material non-licence obligation.	MEDIUM	TransGrid has no tolerance for a breach or material non-compliance of our Transmission Network Lease, major operating licences and authorisations, regulatory framework for operating in the National Electricity Market, financing obligations, or other material obligations. Furthermore, TransGrid has no tolerance for management who are aware of non-compliant activity but let this conduct go unnoticed and does not tolerate any unethical, fraudulent or corrupt conduct.
			All compliance risks must be managed by implementing and continually improving the controls outlined in the TransGrid Corporate Compliance Framework. The Board accepted risk appetite for this risk is 'Medium'.	
6	Network safety	There is a risk that TransGrid causes bodily injury, death and/or third party property damage whilst operating the network.	HIGH	TransGrid has no tolerance for network safety incidents (e.g. bushfires) that could result in loss of life, permanent disability or significant environmental damage.
			The Board accepted risk appetite for this risk is 'High'.	
7	Workforce capability	There is a risk that TransGrid is unable to identify, attract and retain key talent and capability.	MEDIUM	TransGrid has no tolerance for workforce capability risks which could result in material safety, environmental, compliance, network reliability and/or network safety consequences.
			All workforce capability risks must be managed by creating a capability pipeline, with a particular focus on succession and development planning for critical roles, as well as the implementation and continual improvement of our people and culture strategy. The Board accepted risk appetite for this risk is 'Medium'.	

Risk No.	Principal Risks	Risk Description	Risk Appetite	Risk Tolerance
8	Access to Capital	There is a risk that the capital structure adopted to achieve strategic growth initiatives becomes unsustainable.	MEDIUM	TransGrid has no tolerance for risks which could result in a material impact on our financial performance and access to debt financing.
			All access to capital risks must be managed by robust financial controls and regular internal and external auditing. The Board accepted risk appetite for this risk is 'Medium'.	
9	Regulatory	There is a risk that the application of the current regulatory framework and/or changes to regulatory environment have a negative impact on TransGrid.	MEDIUM	TransGrid has no tolerance for regulatory risks that could result in a material impact on our financial performance, access to debt financing as well as network reliability.
			All regulatory risks must be managed by demonstrating the efficient costs of a prudent operator during the Contingent Project Application and Revenue Reset processes. TransGrid also requires the continual deployment of strategic stakeholder management, advocacy and public policy development. The Board accepted risk appetite for this risk is 'Medium'	
10	Social licence to operate	There is a risk that TransGrid may fail to effectively understand or retain its social licence.	MEDIUM	TransGrid has no tolerance for social licence risks that could result in a material impact on our reputation and levels of trust with key stakeholders.
			All social licence to operate risks must be managed by community and strategic stakeholder management as well as continuing to meet our corporate social responsibility expectations. The Board accepted risk appetite for this risk is 'Medium'.	
11	Non-prescribed growth	There is a risk that the non-prescribed areas of the business do not achieve the desired growth.	MEDIUM	TransGrid has no tolerance for risks which could result in a material impact to our financial performance, access to debt financing, network reliability or our licence to operate.
			All non-prescribed growth risks must be managed by a strong investment framework that governs the approval and delivery of investments and maintains credit risk. The Board accepted risk appetite for this risk is 'Medium'.	

Risk No.	Principal Risks	Risk Description	Risk Appetite	Risk Tolerance
12	Major Projects	There is a risk that TransGrid is unable to develop or deliver one or more of the Major Projects within the cost and time objectives noted in the Integrated System Plan.	HIGH	TransGrid has no tolerance for risks which could result in material safety, environment, compliance, social licence and financial performance consequences.
			These risks must be managed by robust governance and assurance practices, effective community and stakeholder management. The Board accepted risk appetite for this risk is 'High'.	

3. Change history

Revision no.	Approved	Amendment
1	Board	Changes to separate Commercial and Financial risk themes, additional strategic theme added 'Licence to Operate', greater focus on operational risk.
2	Board	<p>The 'Very Low' Risk Appetite definition category has replaced the 'No' Risk Appetite.</p> <p>The following strategic risk themes were revised, consolidated or updated in FY19: Safety, Major Licence or Compliance Breach, Non-Prescribed Growth, Financial Risk, Workforce Capability and Regulation. Bushfires, Security and Stakeholder Management were added as new risk themes and the Reputation and Commercial risks were removed.</p>
3	Board	<p>Qualitative and Quantitative update to the Risk Tolerance definition.</p> <p>Aligned review dates to the review of the annual strategy.</p>
4	Board	<p>Key updates are the following:</p> <ul style="list-style-type: none">• The risk appetite levels have been changed to align with the Risk Management Framework and Principal Risk ratings.• Each principal risk has been provided a risk appetite statement, replacing the strategic themes used in previous years. Subject matter experts and risk owners have provided the risk appetite statements for each principal risk.• No tolerance upper bound statements added to all risk appetite statements.

Appendix A – Consequence Table

		Minimal (1)	Minor (2)	Moderate (3)	Major (4)	Catastrophic (5)
HEALTH & SAFETY		Illness, first aid or injury not requiring medical treatment.	Illness or minor injuries requiring medical treatment.	Single recoverable lost time injury or illness, alternate/restricted duties injury, or short-term occupational illness.	Multiple recoverable lost time injuries or life-changing illness Major injury requiring hospitalisation and numerous days lost Medium-term occupational illness.	Single fatality Multiple major injuries Permanent disabilities/chronic diseases.
ENVIRONMENT		Minimal, localised environmental impact which can be rectified in the short-term with no discernible impact on environment. - Addressed at site with spill kits - Not a reportable incident under the POEO Act (NSW) or similar acts in other jurisdictions - <\$1k cost to remediate	Minor, localised environmental impact which can be rectified in the short-term. - Addressed at site, but may require additional resources to address the impact (e.g. bunding oil) - Not a reportable incident under the POEO Act (NSW) or similar acts in other jurisdictions - <\$10k cost to remediate	Reportable environmental incident - Substantial spill - Damage to Aboriginal Heritage Site - Veg. clearance results in clearance of unapproved and/or endangered flora/fauna, - Reportable to EPA and/or OEH in NSW (with similar requirements in other jurisdictions).	Damage to significant Aboriginal Site. Massive loss of oil from transformer that breaches containment systems and pollutes sensitive environmental areas (e.g. National Parks, water catchments). Destruction of Endangered Ecological Communities (EEC) or damage/destruction of threatened species of flora/fauna.	Significant extent of environmental damage. Destruction of significant Aboriginal Site. Significant damage across multiple sites. Permanent, irreversible environmental Impact.
SOCIAL LICENCE		Public concern restricted to local complaints or local media inquiry or minor reports.	Minor, adverse local public, government or media attention and complaints.	Adverse one off national attention from media and/ or sustained concern by a local community and government. Increased oversight burden or loss of a project.	Significant adverse national media reporting and public attention. Loss of strategic business from a key sector in the prescribed or non-prescribed growth area.	Serious public outcry, heightened government concern or media coverage with extensive national coverage. Loss of business from a key sector in the prescribed or non-prescribed area. Loss of Transmission License.
COMPLIANCE		Minor technical breach of regulation Adverse assurance report with minor findings.	Non-compliance with obligations with no civil penalty provisions. Directions on non-compliances as a result of regulatory compliance audit findings or investigation. Breach or non-compliance with obligations with regulator notification to improve operations through implementation of remedial plan.	Breach or material non-compliance with obligations with fines up to \$1.1 million. Breach or material non-compliance with obligations with multiple civil penalty provisions due to systemic failure. Breach or material non-compliance with obligations resulting in regulator enforcement action. Compliance near misses on operating licences, FIRB obligations, NEL/NER obligations related to regulated revenue.	Threat of suspension or loss of other operating licences due to breach or material non-compliance (ACT, VIC, Telco). Breach or material non-compliance with obligations with penalties between \$1.1 - 10 million Breach or material non-compliance with obligations resulting in court ordered enforcement action. Breach or material non-compliance with any instrument impacts access to financing or capital.	Threat of suspension or loss of NSW operating licence due to breach or material non-compliance. Threats from FIRB due to inability to comply with FIRB conditions. Breach leading to likely imprisonment of Director, Officer, or Employee or criminal penalties against company. Breach or material non-compliance of obligation with penalties of >\$10 million.
NETWORK RELIABILITY	Load Customers	Loss of supply to an average-size rural town for up to 1 hour or large rural town for up to ½ hour (up to 20MWh)	Loss of supply to a large rural town, urban local government area or small industrial customer for up to 4 hours (< 400MWh)	Loss of supply to majority of capital city CBD (Sydney or Canberra) for up to 4 hours, or large rural town for up to 24 hours (< 2000MWh).	Event leading to a system “black start”. Loss of supply to majority of capital city CBD (Sydney or Canberra) for up to 48 hours, or large rural town for longer than 24 hours.	Extended “system black” Loss of supply to majority of capital city CBD (Sydney or Canberra) for over 48 hours.
	Generation Customers	Single generation customer constrained due to unplanned transmission network outage for up to 24 hours.	Single generation customer constrained due to unplanned transmission network outage for over 24 hours.	Significant impact to the national electricity market due to unavailability of transmission network elements or SCADA for up to 1 week.	Significant Impact to the national electricity market due to unavailability of transmission network elements or SCADA for longer than 1 week.	

	Minimal (1)	Minor (2)	Moderate (3)	Major (4)	Catastrophic (5)
FINANCIAL PERFORMANCE	<p>Deterioration in debt financing covenant headroom.</p> <p>TAT:</p> <p>EBITDA Impact: < \$2m and/or Balance Sheet Impact: < \$10m</p> <p>TGS:</p> <p>EBITDA Impact: <\$1m CAPEX Cost Overrun: <\$5m</p>	<p>Significant deterioration in debt financing covenant headroom or credit rating metrics.</p> <p>TAT:</p> <p>EBITDA Impact: \$2m to \$5m and/or Balance Sheet Impact: \$10m to \$25m</p> <p>TGS:</p> <p>EBITDA Impact: \$1m to \$2m CAPEX Cost Overrun: \$5m to \$10m</p>	<p>Potential financing event of default.</p> <p>TAT:</p> <p>EBITDA Impact: \$5m to \$15m and/or Balance Sheet Impact: \$25m to \$50m</p> <p>TGS:</p> <p>EBITDA Impact: \$2m to \$3.5m CAPEX Cost Overrun: \$10m to \$15m</p>	<p>Any one of a financing event of default, breach of debt financing covenants or a credit rating downgrade.</p> <p>TAT:</p> <p>EBITDA Impact: \$15m to \$40m Balance Sheet Impact: \$50m to \$100m</p> <p>TGS:</p> <p>EBITDA Impact: \$3.5m to \$5m CAPEX Cost Overrun: \$15m to \$25m</p>	<p>Financing event of default, breach of debt financing covenants and a credit rating downgrade.</p> <p>TAT:</p> <p>EBITDA Impact: > \$40m (i.e., > than 5% impact) Balance Sheet Impact: (particularly RAB) impact > \$100m</p> <p>TGS:</p> <p>EBITDA Impact >\$5m p.a. (i.e. > than 20% projected annual impact) CAPEX Cost Overrun: \$25m single project or in aggregate (i.e. >10% of projected aggregate CAPEX to end 2020)</p>
PEOPLE	<p>Consequence of an event that is restricted to a project where the concerns arose.</p>	<p>Consequence of an event restricted to a single part of the business unit.</p>	<p>Consequence of an event restricted to one business unit.</p>	<p>Consequences of an event affecting more than one business unit within TransGrid.</p>	<p>Consequences of an event, with significant disruption / Impact to the TransGrid ability to operate.</p>

Appendix B – Likelihood Table

	Qualitative	Quantitative	Measure
5	Almost Certain - the event is expected to occur in most circumstances.	90 – 100%	Expected to occur every year
4	Likely – the event will probably occur in most circumstances.	50 – 90%	Expected to occur at least every second year
3	Possible – the event may occur, but is not expected to.	30 – 50%	Expected to occur every 2-3 years
2	Unlikely – the event could occur at some time.	5 – 30%	Expected to occur every 3-20 years
1	Rare – the event may occur in exceptional circumstances.	0 – 5%	Expected to occur every 20 to 100 years