

Appendix 1.3: Financial Governance Procedure

Regulatory proposal for the ACT electricity
distribution network 2024–29

FINANCIAL GOVERNANCE

The purpose of this document is to provide an overarching structure for Evoenergy's financial governance related to forecasting, budgets and projects.

1. PURPOSE

The purpose of this procedure is to provide an overarching structure for the Evoenergy financial governance related to forecasting, budgets and projects. This division has a fully integrated planning process, encompassing the following key planning documents which define and govern the activities undertaken by the division:

- 📁 the Evoenergy Strategy;
- 📁 the Evoenergy Expenditure Forecasting Methodology - 5-year plan;
- 📁 the Evoenergy 10-year Capital Investment Plan;
- 📁 the Evoenergy Asset Management Plan;
- 📁 the Evoenergy Access Arrangements Plan; and
- 📁 the Evoenergy Regulatory Pricing Determinations

Expenditure within Evoenergy will be spent on either Capital, Operational or Maintenance activities.

2. GOVERNANCE

2.1 Financial Governance

All expenditure is released and recorded in the core finance system, Oracle. This system has financial delegations pre-built into the purchasing and project modules, to ensure that payments are authorised in accordance with the ActewAGL Board's approved Delegations Manual.

2.2 Budget Management

The financial estimates of the expenditure requirements and revenue from the updated Evoenergy Plans for the next financial year are to be included in the draft budget for the next financial year and submitted to the General Manager - Evoenergy for their approval or amendment.

Interaction takes place between the General Manager – Evoenergy and the Group Manager Commercial Services Evoenergy during the process of finalising funding priorities to facilitate the efficient management of both financial and non-financial resources within acceptable whole-of-business targets.

Post this process of finalisation, should the Chief Executive or the Board subsequently require a change to the program for the next financial year (due to funding or other budget approval issues) then the respective Evoenergy Plans are to be amended to reflect those changes.

High-level budgets are to be recorded in the financial system. The Group Manager Commercial Services will ensure that a review of resource balancing is carried out to ensure that all available resources are effectively deployed and that budgets do not exceed available resources to execute the works.

No expenditure is to take place outside of the financial budget provisions unless there is special authorisation.

2.3 Project Governance

All Evoenergy projects are tiered in accordance to a tiering matrix, referred to as the Project Tier Classification Matrix (Project Matrix – Table 1). All projects require a tier to be assigned to it before the project is approved. The tiering is used to facilitate appropriate governance arrangements according to the different levels of commercial and implementation risks.

Broadly, projects with a higher risk are monitored closely through project boards, in accordance with Prince2 project management principles. For efficiency, routine and lower risk projects are managed by line managers, as part of broader programs, and do not require the same level of rigorous oversight.

The Project Matrix consists of three core sections (1) Commercial, (2) Work Type and (3) Technical, with each weighting attributed to sub sections to arrive at an overall project tiering level, which will either be Tier 1, 2, 3A or 3B – refer to Table 1.

2.3.1 Commercial

- 📌 Customer contribution, pricing and contract requirements
- 📌 Strategic importance
- 📌 External visibility

2.3.2 Work type

- 📌 Large scale
- 📌 Moderate scale
- 📌 Planned or unplanned maintenance
- 📌 Standard control
- 📌 Asset replacement

2.3.3 Technical

- 📌 Project duration
- 📌 Urgency
- 📌 Management complexity
- 📌 Dependencies

Evoenergy uses unit costs for project budgeting, forecasting and actual expenditure. The unit costs are a build-up of items such as design, materials, labour, overheads and other costs involved in the delivery and management of projects within the division.

The utilisation of unit costs is the foundation for project costing and is critical for the business to provide a transparent and consistent approach.

Unit costs are updated on an annual basis by the business and on a regular basis Evoenergy engages an external review to assess the rates for efficiency and reasonableness.

2.4 Commercial Risk Framework

The Commercial Risk Framework (CRF) policy should be referred to in conjunction with this procedure to ensure sound commercial governance is applied to the processes contained within this document in a consistent manner. The CRF is an integral part of sound management practices and must be integrated into Evoenergy's operations.

The CRF is a key enabler of the Project Tiering Matrix, as it supports the risk-based approach to ensure that project tiering correctly reflects the risks associated with projects in a prudent and succinct way.

The CRF also provides an overarching layer of guidance and direction, coupled with the financial delegations framework, when the plans are being collated to limit the exposure associated with these plans, whilst concurrently maximising the efficiency and effectiveness of Evoenergy.

3. KEY FINANCE PLANNING DOCUMENTS

All of the planning documents must take into consideration compliance with: the Utilities ACT; the Consumer Protection Code; requirements of both the technical regulator and the pricing regulator; industrial, public safety and environmental legislation.

Business needs are to be prioritised with reference to the current risk management plan and register, with less critical expenditures being deferred until the later months or subsequent years. Continuous and careful consideration must be given to the timing of expenditures with respect to the overall business drivers, cash flow effects and availability of resources.

The following drivers are to be considered in all of the key operating and capital plans:

- 📁 Review of historic trends;
- 📁 Review of the assessed condition of the assets;
- 📁 Assessment of asset failure rates;
- 📁 Risk Management review and prioritisation;
- 📁 Review of the requirements of the Technical Regulator;
- 📁 Planning to achieve service standards;
- 📁 Compliance with technical standards;
- 📁 Assessment of Health, Safety and Environmental issues
- 📁 Timing of projects within the 10-year cycle based on risk management and business priorities using the best information available at the time; and
- 📁 Costing of the forecasts on the basis of current rates and current efficiency achievements

Overhead Costs

To ensure that overhead costs are allocated to the Evoenergy business in an equitable way that is fair to customers, and that can be supported by evidence-based material, a Fixed Price Service Charge (FPSC) model is used to allocate out corporate services outlays (i.e., payroll costs, property leases, IT services and infrastructure costs, facility charges, etc.)

The FPSC identifies direct drivers (where possible), and uses indirect drivers that best represent an accurate mechanism for cost allocation; and application of a generic driver, when no direct or indirect drivers are available.

Both operational and capital projects are attributed overhead costs through the financial system in a proportionate manner.

Table 1. Project Matrix

Project Tier	Definition/Risk Profile	Approval Process	Required Supporting Schedules	Governance Requirements
Tier 1	<p>Very high-risk projects – with significant material value, technical complexity, customer interaction, significant external contracts and procurement, duration is typically > 12 months</p> <p>Examples: Major network relocations, Major augmentation projects</p>	<p>Per Financial Delegations – to be managed through a Project Board</p> <p>Phases include:</p> <p>Phase 1 – Start up</p> <p>Phase 2 – Initiation</p> <p>Phase 3 – Procurement</p> <p>Phase 4 – Deliver (Design, Construct)</p> <p>Phase 5 - Close</p>	<p>Engineering options analysis (including drawings)</p> <p>Business Case (Start-up)</p> <p>Project Brief (Start-up)</p> <p>Project Initiation Document (PID)– including lifecycle and costing options. PID must address:</p> <ul style="list-style-type: none"> regulatory funding budget availability project cost estimate project delivery schedule project work breakdown structure customer contribution calculation funding agreement/draft revenue contract quantified risk assessment capital works approval 	<p>Designated Project Manager</p> <p>Monthly Project Board meeting</p> <p>Monthly project reporting that includes: schedule, scope, budget, revenue, margin, risks, contracts, etc.)</p> <p>Monthly forecast</p> <p>BPR highlight report</p> <p>Earned value</p> <p>Exception report (when scope, scheduled, or budget are forecast to exceed tolerances)</p> <p>End of Project Report at completion</p> <p>Governance Members include: Project sponsor and Project Board</p>
Tier 2	<p>High risk projects – with significant value, technical complexity, requires external contracts and procurement,</p>	<p>Per Financial Delegations – to be managed through a Project Board</p>	<p>Engineering options analysis (including drawings)</p> <p>Business Case (Start-up)</p>	<p>Designated Project Manager</p> <p>Designated Delivery Manager</p>

	<p>duration is typical 6 – 12 months</p> <p>Examples: Feeder replacements, lock replacement, large scale solar connections, urban residential development, large relocations, transformer replacements</p>	<p>Phases include:</p> <p>Phase 1 – Start up</p> <p>Phase 2 – Initiation</p> <p>Phase 3 – Procurement (if required)</p> <p>Phase 4 – Deliver (Design, Construct and Procurement in not completed in Phase 3)</p> <p>Phase 5 - Close</p>	<p>Project Brief (Start-up)</p> <p>PID – including lifecycle and costing options. PID must address:</p> <ul style="list-style-type: none"> • regulatory funding • budget availability • project cost estimate • project delivery schedule • customer contribution calculation • funding agreement/draft revenue contract • quantified risk assessment • capital works approval 	<p>Designated Defining Manager (Asset Class/Customer Initiated Manager)</p> <p>Monthly Board Report that includes: schedule, scope, budget, revenue & margin, risks, contracts, etc.)</p> <p>Earned value</p> <p>Exception report (when scope, scheduled, or budget are forecast to exceed tolerances)</p> <p>End of Project Report at completion</p> <p>Governance Members include: Project Board/Project Review Committee</p> <p>Program of Work (POW) Committee</p>
<p>Tier 3 A</p>	<p>Medium risk projects – with moderate value, non-standard connection agreements, alternate control</p> <p>Examples: Customer relocations, mains relocations</p>	<p>Per Financial Delegations & Standard approval process</p> <p>Phases include:</p> <p>Phase 1 – Initiate</p> <p>Phase 2- Design</p> <p>Phase 3 – Deliver (detailed design, procure, construct)</p> <p>Phase 4 - Close</p>	<p>Engineering options analysis (including drawings)</p> <p>Business Case (including lifecycle and costing of options, regulatory funding, budget availability)</p> <p>Project Cost Estimate</p>	<p>Designated Project Manager (may also be the Delivery Manager)</p> <p>Designated Defining Manager (Asset Class/Customer Initiated Manager)</p> <p>Joint Defining Manager and Delivery Manager Review</p>

			Project Delivery Schedule	Monthly highlight/project report (scope, delivery, budget, revenue & margin, risks) – This may be combined at the asset class or program level and incorporated into the POW reporting suite
			Customer Contribution Calculation	
			Funding Agreement/Draft Contract	Governance Members include: POW Committee, Delivery Performance Review Members
			Quantified Risk Assessment	
			Capital Works Approval	
Tier 3 B	Low risk projects – which are low value, routine work, standard connections, standard control, duration < 3 months Examples: Routine customer works, minor customer works, minor embedded generation works	Per Financial Delegations & Standard approval process (noting that Commercial Manager approval is not required for projects <\$22k) Phases include: Phase 1 – Initiate and design Phase 2 – Delivery (Procure & Construct) Phase 3 - Close	Engineering options analysis (including drawings) Business Case – Short Form (including lifecycle and costing of options, regulatory funding, budget availability) Project Cost Estimate Project Delivery Schedule Customer Contribution Calculation Customer Quotation Capital Works Approval	Designated Project Manager (may also be the Delivery Manager) Designated Defining Manager (Asset Class/Customer Initiated Manager) Joint Defining Manager and Delivery Manager Review Monthly financial tracking End Project Report at completion Exception report – initiate project variations when forecast scope, schedule or expenditure exceeds approved thresholds.

Quarterly compliance audits for projects <\$22k
(instead of Commercial Manager approval)

Governance Members include: POW
Committee, Delivery Performance Review
Members