TransGrid

Corporate Plan 2014-2019

ensuring an effective safety culture

developing new business

preparing for a competitive future

delivering best practice stakeholder engagement

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Executive Summary

TransGrid's central purpose is summarised in its mission *"To provide safe, reliable and efficient transmission services to NSW, the ACT and the National Electricity Market."*

While this central purpose has not changed, TransGrid is operating in a changing environment. The changes in the electricity environment over the last five years have created much more uncertainty for the future. A much broader range of scenarios must be considered. Forecasts of electricity demand now include projections of domestic solar installations, demand reductions due to energy efficiency initiatives and changes to consumer behaviour. Scenarios now consider the introduction of large scale renewable generation driven by the renewable energy target, potential changes to network planning and reliability standards, and potential for future developments affecting Australia's electricity supply industry as a whole.

TransGrid is responding to this changing world. The organisation has deferred over $600 million of capital expenditure in the 2009-2014 regulatory control period in response to changes in electricity demand. As demand forecasts remain subdued, TransGrid's current revenue proposal for the regulatory control period 2014-2019 features significantly less capital expenditure for network augmentations than previously but higher levels of replacement expenditure reflecting many of the assets built during the 1950s and 1960s reaching the end of their serviceable lives. In addition, TransGrid is focusing on developing new business to diversify the business from a reliance on regulated returns.

This year has seen a different approach to the development of the initiatives that will be pursued as part of the Corporate Plan 2014-2019. A business value driver tree has been developed which maps how we deliver on our objectives for the business. The driver tree allows strategic priorities to be reviewed based on external and internal challenges such as uncertain revenue and opportunities such as growing TransGrid's non prescribed revenue.

In order to deliver on our objectives, TransGrid will focus on delivering four strategic initiatives and driving organisational performance via key enablers. The initiatives are:

> **Ensuring an effective safety culture** – improve safety outcomes by strengthening the safety culture of our employees and contractors and maintaining employee safety engagement.
> **Developing new business** – deliver at least $100 million revenue by 2018/2019 in lines of business where TransGrid has a competitive advantage.
> **Preparing for a competitive future** – improve our competitiveness for new business, drive costs down and promote strong customer service.
> **Delivering best practice stakeholder engagement** – be an open and consultative organisation that values input from stakeholders and encourages them to be a part of decision making.

Underlying these initiatives are two enablers:

> **Enhancing leadership performance** – supporting leaders to be role models, driving accountability and personal responsibility.
> **Managing strategic change –** improving how we deliver strategic change to achieve our objectives.

Each initiative and enabler has a project manager who will report via a steering committee to the Executive. Performance against the Corporate Plan will continue to be reviewed on a monthly basis by the Executive and on a quarterly basis by the Board.

Introduction

Nature and Scope of Operations

TransGrid is the owner, operator and manager of the NSW high voltage electricity transmission network connecting generators, distributors and major end users in NSW and the Australian Capital Territory (ACT). The network is interconnected to Queensland and Victoria, providing a strong electricity system that makes interstate energy trading possible.

As a New South Wales State Owned Corporation TransGrid operates within the boundaries set by relevant State legislation such as the *State Owned Corporations Act, 1989* and the *Electricity Supply Act, 1995*. In addition, TransGrid's operations must comply with the *National Electricity Law* and the *National Electricity Rules,* and a wide range of State and Federal legislation. Further information on the governance structure of TransGrid is included as **Appendix 1**.

Corporate Plan

TransGrid's Corporate Plan has been developed in accordance with guidance provided by NSW Treasury. The Corporate Plan's primary focus is to formulate a plan that provides strategic direction for the period through to 2018/2019.

Vision, Mission, Objectives and Values

Our Vision
Excellence in all we do

Our Mission
To provide safe, reliable and efficient transmission services to NSW, the ACT and the National Electricity Market

Objectives

The *National Electricity Rules* define an extensive set of service obligations for TransGrid. In delivering these transmission services TransGrid is also required to meet the principal objectives of its enabling legislation, the *Energy Services Corporations Act, 1995*. This Act defines the principal objectives of an energy transmission operator.

The above legislative framework defines certain obligations for TransGrid to construct, operate, repair and maintain its electricity network with the aim of promoting the efficient, safe, reliable and environmentally responsible production and use of electricity. Specifically, TransGrid is obliged to meet the transmission planning standards set by the NSW Government under these regulations.

Values

TransGrid's reputation and performance is influenced by the decisions its people make and the actions they take on behalf of the business each day. TransGrid's values influence these decisions and actions and should guide TransGrid employees in carrying out their work. The values are shown in **Figure 1**.

Figure 1: TransGrid's Corporate Values

TransGrid's External Environment and Challenges

The external environment in which TransGrid is operating is facing increasingly significant and more rapid change than in past years.

The changes in the electricity environment over the last five years have created much more uncertainty for the future. Forecasts of electricity demand now include projections of domestic solar installations, demand reductions due to energy efficiency initiatives and changes to consumer behaviour. Scenarios now consider the introduction of large scale renewable generation driven by the renewable energy target, potential changes to network planning and reliability standards, and potential for future developments affecting Australia's electricity supply industry as a whole. Price increases are also impacting on energy demand.

TransGrid is responding to this changing world. The organisation has deferred over $600 million of capital expenditure in the 2009-2014 regulatory control period in response to changes in electricity demand. As demand forecasts remain subdued TransGrid's current revenue proposal for the regulatory control period 2014-2019 features significantly less capital expenditure for network augmentations than previously. In addition, TransGrid is focusing on developing new business to diversify the business from a reliance on regulated returns.

This section will briefly explore the key factors and challenges in the external environment and how these factors have influenced the strategic direction for the organisation.

Energy demand

Total electricity consumption across the National Electricity Market (NEM) regions has declined at an average annual rate of 1.8% since 2009/10[1]. Although the Australian Energy Market Operator's (AEMO's) most recent forecast for total consumption in the coming decade is for average annual growth of 0.3% under a medium economic growth scenario, this is a significant reduction compared to previous forecasts. AEMO has previously listed the contributing factors to this lowered electricity consumption growth rate as[2]:

> 'continued increases in domestic rooftop photovoltaic (PV) installations incentivised through feed in tariffs and reduced system installation prices
> lower than expected growth in most industrial sectors
> higher than previously estimated impacts from energy efficiency measures through changes in building standards and regulation
> higher than previously estimated customer response to high price events based on analysis of historical demand side participation behaviour'.

[1] Section 2-1, Australian Energy Market Operator, 2014 National Electricity Forecast Report

[2] Page iv, Australian Energy Market Operator, 2013 Electricity Statement of Opportunities

While total consumption trends inform TransGrid's activities, it is maximum electricity demand across the year that drives transmission planning investment decisions. AEMO's forecast for maximum electricity demand in NSW over the coming three years is for an annual growth of 0.5%. This is lower than the 2013 forecast for that period of 0.8%[3], which in turn, was lower than forecasts in previous years. The lowered forecasts reflect AEMO's anticipation of decreased electricity use by large industry in NSW, the high penetration of rooftop solar panels in NSW and anticipated uptake of energy efficiency due to Federal Government programs[4].

As noted the lowered forecasts for total electricity consumption and maximum demand have impacted on TransGrid's project delivery and its approach to improving efficiencies. This moderation in demand growth has contributed to a reduction in the number of demand-growth driven projects. Consequently, much of TransGrid's capital works program relates to the replacement or refurbishment of equipment which is nearing the end of its serviceable life. Included as **Appendix 2** is a listing of major projects included in the capital expenditure forecasts for 2014/2015 and 2014/2015 to 2018/2019.

Price increases

In recent years significant price rises have occurred for electricity consumers. Consumer reaction to these price increases has put pressure on governments and regulators to curb revenue from network operators. While transmission is a small component of most bills, at approximately 7% on average for residential and small business consumers, TransGrid understands that every dollar is important and that recent electricity price rises have added to household or business financial pressures.

In 2012 TransGrid announced a revenue freeze for 2013/2014, in order to reduce volatility in prices. This initiative was intended to minimise the price impact of TransGrid's transmission services on consumers. During the 2014/2015 transitional revenue decision year, the total NSW transmission revenue will rise 2.4% from 2013/2014, less than the expected 2.9% Consumer Price Index (CPI). TransGrid's revenue proposal for 2014/2015 to 2018/2019 forecasts revenue increases no higher than the CPI over the remaining regulatory control period from 2015/2016.

Revenue challenges

The most immediate challenge for TransGrid is to achieve a reasonable revenue cap decision following submission of the full revenue proposal for 2014-2019 in May 2014. The Australian Energy Regulator (AER) will release its draft decision in November 2014, followed by TransGrid submitting a revised revenue proposal by January 2015. The AER will release TransGrid's final revenue determination for 2014/2015 to 2018/2019 in April 2015.

The development of financial performance targets that will continue to deliver commercial returns and preserve business value for the next five-year regulatory period commencing 2014/2015 has been considerably more challenging. The forecast regulated rate of return that drives approximately 65% of TransGrid's regulated revenue is likely to be materially lower for the 2014-2019 regulatory period compared to the regulated returns for prior and current regulatory periods. Regulatory WACC scenarios for maximum allowable revenue are shown in **Figure 2**.

[3] 10% probability of exceedence forecast under a medium economic growth scenario. Section 4-2, Australian Energy Market Operator, 2014 National Electricity Forecast Report

[4] Section 4.3, Australian Energy Market Operator, 2014 National Electricity Forecast Report

The profit after tax forecasts based on the regulatory WACC scenarios are shown in **Figure 3**. The reduction in the 2013/2014 profit after tax reflected the impact from the revenue freeze initiative and further pressure on the profit is expected from 2014/2015 compared to the prior regulatory period with the likely reduction in regulated revenue. The forecasts incorporate the regulatory expenditure requirements in the full revenue proposal and the targeted growth of $100 million in non-prescribed revenue by 2018/2019. Further details on the financial targets for 2014/2015 are presented in **Appendix 3**.

Figure 2: Regulatory WACC scenarios for maximum allowable revenue (MAR)

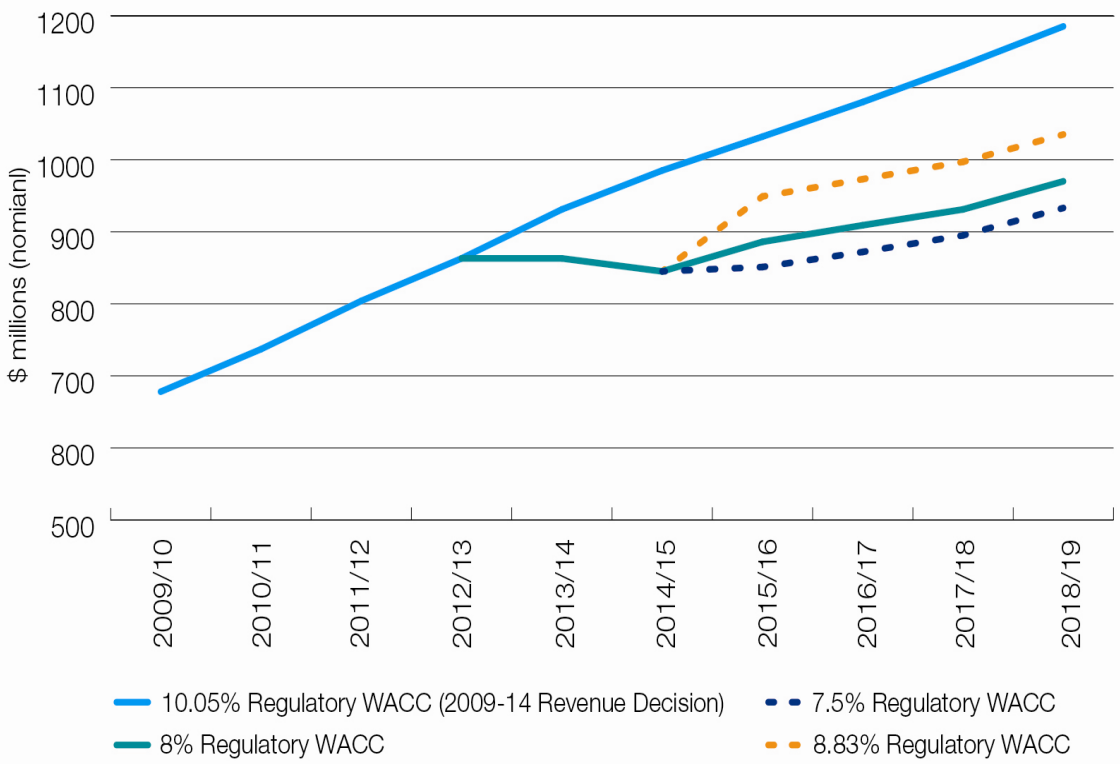
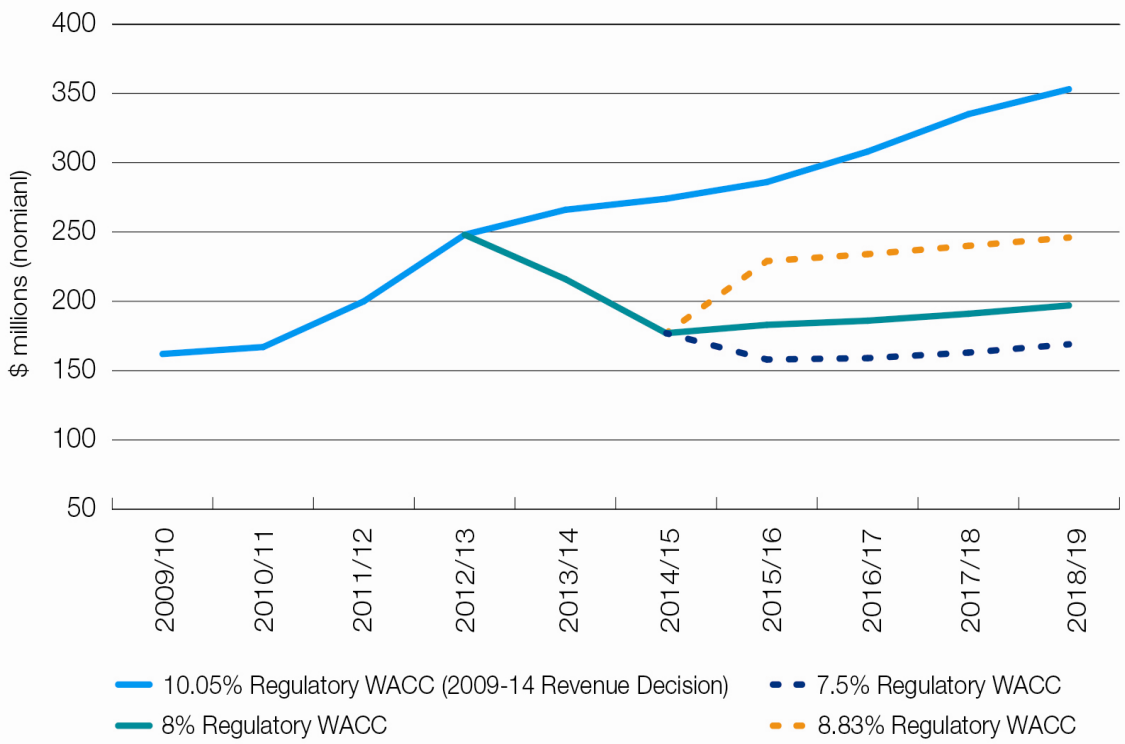


Figure 3: Regulatory WACC scenarios for profit after tax



Regulatory reform

Australia's energy regulatory and policy frameworks have changed in recent years. Rises in electricity network charges have led to the AER being afforded greater powers to investigate and determine the efficiency of revenue proposals proposed by regulated network businesses, including TransGrid. All network businesses are now required to provide significant amounts of data to the AER to help the regulator compare the performance of these businesses.

Australia's governments and the Australian Energy Market Commission (AEMC) are also progressing other changes to ensure that electricity pricing and service delivery are efficient and flexible. These include reforms designed to:

> improve how network tariffs can be structured to encourage consumers to avoid using the system at times of highest demand while preserving the network business's ability to recover its fixed costs.
> provide a competitive approach to the rollout of smart meters for small customers (households and small businesses). Smart meters provide customers with detailed information to help them manage their power usage more effectively. They also reduce costs for distributors and can allow them to respond to outages more quickly.
> permit network system reliability to be set at levels that better meet consumers expectations.
> make contestable the services offered by transmission businesses to connect generators to the grid.
> provide network businesses with stronger incentives to meet customer needs without building additional network infrastructure, for example, deferring capital works by contracting demand management services.
> ensure more consistent transmission planning across the NEM.

The ways in which energy is supplied to and used by consumers is likely to evolve further in the next ten to twenty years and policy makers and the electricity industry are starting to consider whether more significant changes to Australia's energy regulatory and policy frameworks are needed so that they remain fit for purpose. As part of this, Australia's governments intend to review the governance arrangements for the three key NEM institutions (the AEMC, the AER and the AEMO) during the second half of 2014.

Further information on regulatory reform is included as **Appendix 4a**.

The impact of renewables and technology

Grid utilisation challenge

There has been much commentary regarding the potential 'death spiral' of network revenues as users disconnect, or reduce portions of energy drawn from the centralised grid. TransGrid is testing its network plans under low utilisation scenarios, which may include greater support for non-network solutions, decommissioning current assets, tariff reform, and prioritising new business opportunities that increase grid utilisation, such as new loads, centralised storage and lower cost centralised generation assets.

Generation mix

The Australian Government's renewable energy target (RET) aims for a 20% share for renewable energy in Australia's electricity mix by 2020. The achievement of this goal is expected to require additional renewable generation investments, with a significant proportion being from wind generation. Generation investment interest in NSW is focused on wind generation with 27 wind generation projects currently proposed. However interest in solar generation investment also continues to be strong with eight projects proposed[5].

[5] AEMO, 2013 Electricity Statement of Opportunities

Prompted by concerns on price impacts on customers, the Australian Government has initiated a study of the RET. Until the RET review is complete and the Australian Government confirms any policy changes, renewable energy projects are unlikely to proceed to construction. Nevertheless, TransGrid has taken substantial steps to improve the cost, time and responsiveness of customer connection projects.

Energy storage technology and opportunities

Energy storage, including large battery installations and smaller batteries in electric vehicles, has both potential to provide several services for TransGrid's network, including peak demand shaving and voltage and frequency support. There are also international examples of where the integration of electric vehicles or other storage options into the grid has facilitated the development of more intermittent renewables, such as wind or distributed solar PV. The location of storage uptake (whether distributed or centralised) may also have an impact on the viability and profitability of centralised transmission in the future.

TransGrid has begun exploring the practicalities of using storage on the grid with the iDemand innovation project (due for completion in 2014) and through a large storage project proposed for the 2014-2019 regulatory control period as part of the network capability incentive scheme.

Possible change in ownership

In June 2014 the NSW Government announced that it will undertake a long term lease of 49 percent of the State's electricity network businesses if it is returned to Government after the March 2015 election. Network businesses that are expected to be involved in the transaction are Ausgrid, Endeavour Energy and TransGrid. Essential Energy will remain in public hands.

It is expected that a Scoping Study will be the first significant piece of work to be undertaken as part of the lease process. TransGrid will participate during the first half of 2014/2015 in supporting this Scoping Study for the transaction, and the transaction itself, if it proceeds after March 2015. As such, the business is currently making plans to support this activity. Further information is included as **Appendix 4b.**

Summary

From the assessment of the external business environment it is clear that TransGrid is facing a challenging future. The fundamental question is the extent to which TransGrid's current internal capabilities match the capabilities required to meet these challenges. TransGrid has already begun to respond to this changing business environment and has focused on:

> improving efficiencies in the business;
> delivering timely network projects;
> enhancing the customer experience (further information is presented in **Appendix 4c**);
> optimising stakeholder engagement (further information is presented in **Appendix 4d**); and
> the safety of employees, contractors and the public.

An analysis of the internal business capabilities for TransGrid has been undertaken and is presented as **Appendix 5**.

TransGrid will continue this focus whilst fostering greater accountability and adaptability to respond to external challenges and regulatory reform. The next section examines TransGrid's strategic direction for 2014-2019. The objectives of the business will be achieved through a defined set of initiatives and enablers that are focused on the areas where it is considered necessary to achieve real and sustained change to be able to proactively position the company in the context of a changing environment.

Strategic Direction

The Corporate Plan 2014-2019 defines the organisation's vision, mission, principal objectives, key initiatives and measures. It is the central reference point for decision making across the business over the coming year and will provide clarity of purpose into the future. The Plan reflects input from TransGrid's Board, Executive and the organisation's Group Managers.

This year has seen a different approach to the development of the initiatives that will be pursued as part of the Corporate Plan 2014-2019. A business value driver tree has been developed which maps how we deliver on our objectives for the business. The driver tree allows strategic priorities to be reviewed based on external and internal challenges such as uncertain revenue and opportunities such as growing TransGrid's non prescribed revenue. At the highest level the driver tree identifies what is driving the business and what will be measured against these business objectives and the targets as shown in **Figure 4**. These targets are reflected in a short term incentive scheme for senior officers.

Workplace safety

- Improve on last year's result leading to the target of zero lost time injuries (LTI) for both staff and contractors

Environmental performance

- Improve on last year's result leading to the target of zero high consequence incidents

Financial return

- > $176 million profit after tax

New business

- > $43 million of non-prescribed revenue

Projects performance

- > 70% of major projects (> $5 million) on time and on budget

Reliability

- 4 or less loss of supply events which are ≥ 0.05 system minutes

Consumer and stakeholder engagement

- Improve baseline stakeholder engagement score by year-end

Customer experience

- > 72% customer satisfaction score

Performance culture

- > 58% employee engagement score

Diversity is an intrinsic part of TransGrid's culture and success. The organisation is committed to providing diversity groups with opportunities. However it is also recognised that there is more to do. The organisation has been working towards a series of diversity targets for a range of identified diversity groups. These targets and further information on TransGrid's commitment to diversity is included as **Appendix 5**.

Strategic change initiatives

Detailed measures and targets have been developed for all business objectives and performance against these will be tracked monthly at the Board and the Executive.

TransGrid has developed four initiatives and two enablers to achieve its organisational objectives. The initiatives and enablers are considered to be areas where the organisation needs to focus its efforts in order to achieve real and sustained change and respond to the challenges identified in the external environment.

The initiatives are:

> **Ensuring an effective safety culture** – improve safety outcomes by strengthening the safety culture of our employees and contractors and maintaining employee safety engagement.

  Rationale for change: Traditionally an area with consistent focus, questions are emerging regarding the safety culture within the organisation. There has been an increase in high consequence incidents, that is, near miss events that could have had serious consequences, and opportunities exist to use more up to date risk methodologies and better understand control failures. Contractor safety performance remains below that achieved by employees. Based on injury rates TransGrid is performing to a high standard and is continuing to improve. However, consistent with the organisation's vision of zero incidents for employees and contractors TransGrid is committed to moving the organisation to the next l in terms of safety culture, engagement and performance.

> **Developing new business** – deliver at least $100 million revenue by 2018/2019 in lines of business where TransGrid has a competitive advantage.

  Rationale for change: With future prescribed revenue uncertain and demand subdued an opportunity exists to diversify the business from a reliance on regulated returns and to develop processes and skills to prepare the business for a competitive future. The focus will be on growing the organisation and enhancing business value.

> **Preparing for a competitive future** – improve our competitiveness for new business, drive costs down and promote strong customer service.

  Rationale for change: As the market becomes more competitive TransGrid must build on the changes it has put in place to increase organisational efficiencies, minimise delivery, maintenance and support costs and continue to improve customer responsiveness. While TransGrid has taken substantial steps towards implementing revised arrangements to improve the cost, time and responsiveness of customer connection projects it is recognised that there is still further work to be done to position the organisation for a more competitive future in terms of both process change and cultural change.

> **Delivering best practice stakeholder engagement** – be an open and consultative organisation that values input from stakeholders and encourages them to be a part of decision making.

  Rationale for change: TransGrid recognises that it is essential to deliver best practice stakeholder engagement, which includes being open and consultative with consumers and local communities, as well as positioning itself as a trusted advisor to Government and regulatory bodies.

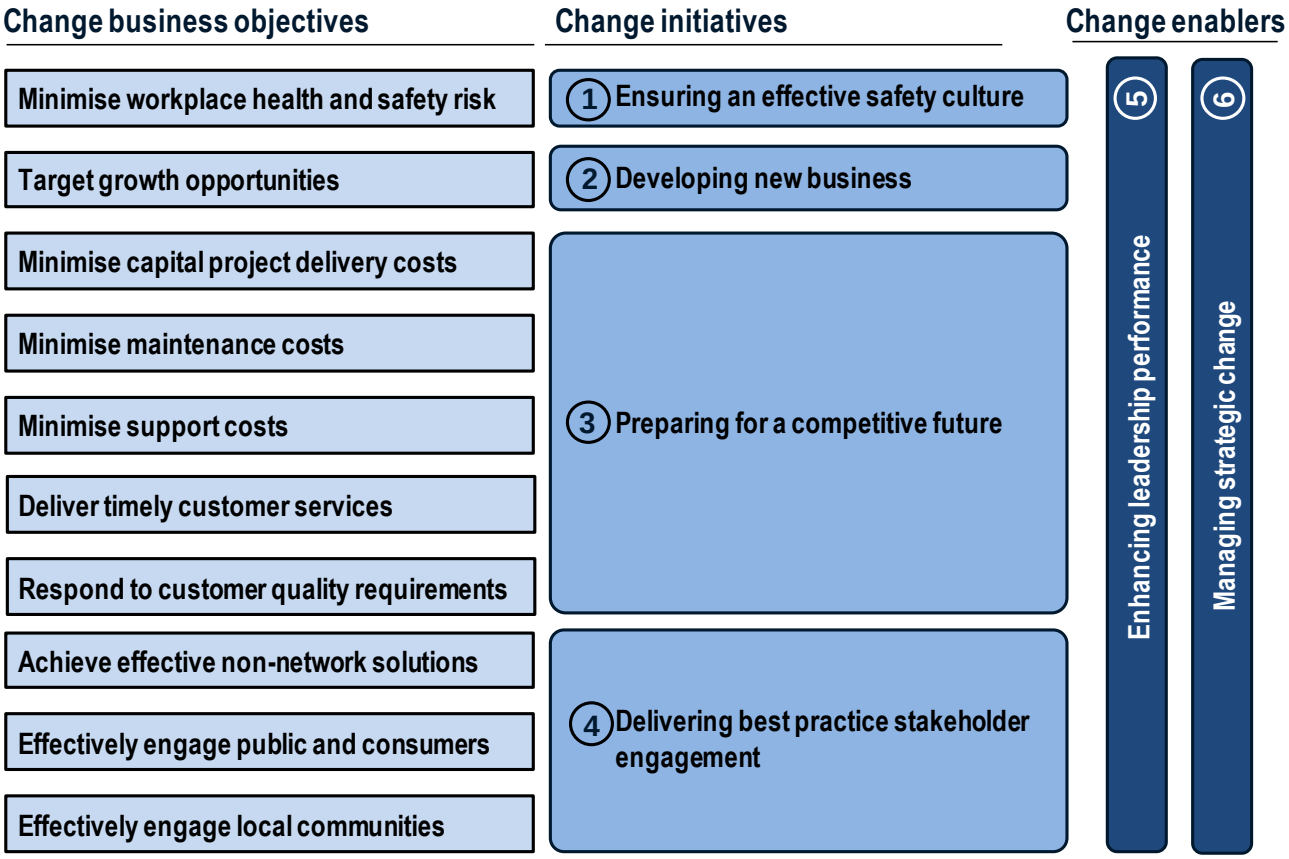
Overlaying these initiatives are two enablers:

> **Enhancing leadership performance** – supporting leaders to be role models, driving accountability and personal responsibility.
> **Managing strategic change** – improving how we deliver strategic change to achieve our objectives.

Each initiative and enabler has a project manager who will report via a steering committee to the Executive. Performance against the Corporate Plan will continue to be reviewed on a monthly basis by the Executive and on a quarterly basis by the Board.

While some initiatives are aligned one on one to business objectives, for example, ensuring an effective safety culture and developing new business, others will achieve multiple objectives, for example, preparing for a competitive future and delivering best practice stakeholder engagement. The enablers are designed to equip people with the right leadership skills and leadership behaviours to deliver the initiatives. These initiatives and enablers and their alignment to business objectives is shown in **Figure 5**.

Figure 5: Alignment between the business value driver tree, business objectives and change initiatives



The business value driver tree, showing measures against each objective is shown on **page 15**. The initiatives and enablers which will be undertaken to support the delivery of business objectives are set out on **pages 17 to 19.** These are supported by further initiatives set out in individual business unit plans and a range of supporting plans.

TransGrid

Objectives

Measures

PRESERVE LICENCE TO OPERATE	Contribute to our community	MINIMISE SOCIAL COST OF OPERATION	Minimise workplace health & safety risk	• HCI, LTI and audit compliance
			Minimise public safety risk	• Public safety HCI
			Minimise environmental risk	• Environmental HCI and audit compliance
		MINIMISE CONSUMER ELECTRICITY COSTS	Achieve effective non-network solutions	• % of approved capex allowance in the reset decision which is deferred or avoided by planning decisions
			Minimise cost of service delivery	
			Support an efficient electricity market	
		OPTIMISE STAKE-HOLDER ENGAGEMENT	Effectively engage public & consumers	• Survey, media coverage and online engagement
			Effectively engage local communities	• Survey, complaints and media coverage
			Effectively engage governments & regulators	• Survey, media coverage, online engagement
	Service the market	MAXIMISE NETWORK RELIABILITY	Improve operator & maintenance effectiveness	• No. of events, maintenance achieved and preventable outages
			Deliver timely network projects	• PAD timeframes and PADS meeting planning standards
			Achieve effective non-network solutions	
		SUPPORT AN EFFICIENT ELECTRICITY MARKET	Minimise transmission constraints	• AER market impact incentive scheme, network availability
			Deliver timely customer services	
MAXIMISE ENTERPRISE VALUE	Optimise regulated business	ACHIEVE SUCCESSFUL REVENUE DETERMINATION	Manage revenue reset process well	• To be assessed by the Board
			Optimise stakeholder engagement	
		Achieve effective non-network solutions		
		MINIMISE COST OF SERVICE DELIVERY	Minimise capital project delivery costs	• Overall program actual v. budget and capital projects on budget
			Minimise maintenance costs	• Actual v. budget YTD
			Minimise corporate & support costs	• Actual v. budget YTD
		MAXIMISE SERVICE INCENTIVE OUTCOMES	Maximise network reliability	
			Minimise transmission constraints	
		Minimise financing, depreciation & other costs		• Actual v. budget YTD and cost of debt v. budget
	Grow new profitable business	PRICE COMPETITIVELY	Target growth opportunities	• Non-prescribed revenue, opportunities identified, bid/pursued, won
			Minimise cost of service delivery	
		OPTIMISE CUSTOMER EXPERIENCE	Deliver timely customer services	• Annual survey, customer deadlines met, enquiry responsiveness
			Respond to customer quality requirements	• Surveys and customer complaints

PEOPLE (performance culture, safety, capabilities, ethics)

- Manage performance
  - % of performance management plans completed
- Enhance diversity
  - P% of women in the workplace (incl. senior roles), Aboriginal or Torres Strait Islander descent, those with English as a second language, those requiring adjustment at work due to disability

LEGEND

- Objective
- Objective overlap

Change Initiative 1: Ensuring an effective safety culture

Initiative Summary	The objective of this initiative is to improve TransGrid's safety culture and performance through the minimisation of workplace health and safety risk. Specifically this initiative will lead to an increase in the understanding of the control mechanisms for fatal risks and therefore a reduction in what could be potentially high consequence incidents. This initiative will also promote increased accountability for contractor safety results, as well as ensuring that all employees are empowered to stop work at any time should they have safety concerns.
What are the likely streams of work?	The work streams will include: > learning from other safety conscious industries; > cultural assessment and improvement, which may include training, assessment and survey; > continually improve safety performance leading to best practice safety management utilising the bowtie method; and > processes to review contracts and contractors for safety accountability.

Change Initiative 2: Developing new business

Initiative Summary	The objective of this initiative is to develop a competitive service orientation within TransGrid which will contribute to achieving the target of earning at least $100 million non prescribed revenue by 2018/2019. The organisation will seek to achieve synergies with the existing business through the utilisation of resources, capability and assets to achieve a competitive advantage and increase business value whilst also pursuing new and profitable opportunities. Change initiative 3 will assist in positioning the organisation to successfully grow new profitable business.
What are the likely streams of work?	The work streams will include: > the provision of goals and information to enable TransGrid employees to participate in and propose new business initiatives; > the development of sales and marketing strategies for the lines of business; > training of employees and recruitment in the non prescribed lines of business; > implementation of portfolio management and governance arrangements; and > technology support; finance and business development.

Change Initiative 3: Preparing for a competitive future

Initiative Summary	The objective of this initiative is to enhance organisational efficiency. This initiative will focus on a single point of accountability for risk / cost trade off, clearer cost visibility and accountability of key functions, driving costs down, as well as the ability to compare costs with other providers. Key functional units will adopt a service role to the asset manager, thereby promoting a customer service orientation and supporting the organisation in growing new profitable business.
What are the likely streams of work?	The work streams will focus on two areas: > business processes – refinement, extension and embedding of the funnel diagram principles to include whole of project life; and > business systems – costing, charging mechanisms and benchmarking.

Change Initiative 4: Delivering best practice stakeholder engagement

Initiative Summary	The objective of this initiative is to ensure that TransGrid is delivering best practice stakeholder engagement and is recognised for this. TransGrid will effectively engage with the public, consumers and local communities in order to protect its licence to operate and for consumer and community groups to have input into and trust in our decision making. TransGrid will also positively influence governments, the AEMC, AEMO and the AER with respect to policy and regulatory issues and how future revenue resets are best carried out.
What are the likely streams of work?	The work streams will include: > program engagement – Powering Sydney's Future project engagement program; and – revenue reset consumer engagement program; > engagement processes for projects – redesign of project planning and implementation process and redesign of network planning process to clarify when and how stakeholders are engaged; > complaints management – implement systems and processes to better capture and act on complaints and monitor overall satisfaction of impacted community, consumers and the public; > building an external profile on positive topics; and > greater use of web based technology and social media to actively engage with stakeholders.

Change Enabler 1: Enhancing leadership performance

Initiative Summary	This change enabler will create a TransGrid where leaders will be more proactive, commercially orientated, people focused and change centric. They will make hard calls, champion the strategy and celebrate success. They will be role models for leaders across the business. As part of this change enabler streams of work include leadership assessment for Group Managers, implementation of an active strategic rotation program for Group Managers, updating of selection processes and strategies, performance management that focuses on leadership skills as well as business as usual deliverables and linking leadership programs to cultural change objectives.
What are the likely streams of work?	The work streams will include: > leadership assessment for Group Managers – focus areas, assessment and tracking improvement; > implementation of an active, strategic rotation program for Group Managers; > updating selection processes and strategies; > performance management focusing on leadership skills as well as business as usual deliverables; and > closely linking leadership programs to culture change objectives.

Change Enabler 2: Managing strategic change

Initiative Summary	This change enabler will create an integrated approach to change across TransGrid. Each of the above initiatives are key change initiatives for the business and need to be managed within a governance structure to ensure the full benefits of each are realised. This governance structure will focus on ensuring alignment between initiatives, effective monitoring and reporting and benefits realisation.
What are the likely streams of work?	The work streams will focus on: > change management approach that includes a program of governance, accountable culture development and benefits realisation; > initiative program management to ensure alignment between initiatives and the business; > employee engagement and communication program; > linking of initiatives to performance management plans, incentives and the budget cycle and effective cascading to business unit plans; and > improving organisational agility.

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Corporate Plan 2014-2019

Appendices

Appendix 1: Corporate Governance

Shareholders

TransGrid's Board of Directors is responsible and accountable to the voting shareholders, being The Hon. Andrew Constance MP, NSW Treasurer and The Hon. Dominic Perrottet MP, Minister for Finance and Services who each hold one share for and on behalf of the New South Wales Government in accordance with the *State Owned Corporations Act, 1989*.

Board of Directors

The principal objectives and functions of TransGrid and the structure and composition of the TransGrid Board are described in the *Energy Services Corporations Act, 1995 No. 95*, the *State Owned Corporations Act, 1989 No. 134* and *TransGrid's Constitution*.

TransGrid's Board operates in accordance with the principles set out in its Board Charter. This charter details the Board's structure and responsibilities and is reviewed on an annual basis. The Board is responsible for confirming that the performance targets within the TransGrid Statement of Corporate Intent (SCI) are based on and supported by the Corporate Plan.

Structure of the Board

The *Energy Services Corporations Act, 1995* provides for the Board of TransGrid to consist of:

> the Managing Director; and
> at least three and not more than six other Directors to be appointed by the voting shareholders at their discretion;

The period of appointment of non-executive directors is at the discretion of the shareholders.

Chairman and Managing Director

The Board Charter outlines the roles of the Chairman and Managing Director. The Chairman is to provide leadership and promote the cohesiveness and effectiveness of the Board. The Managing Director is responsible for the day to day management of the operations of TransGrid in accordance with the general policies and specific directions of the Board.

Board and Executive Committees

To assist with areas of specific responsibility the Board currently has four Board Committees: Audit and Risk, Remuneration and Structure, Health and Safety, and Regulatory.

Appendix 2: TransGrid's Major Capital Projects

Major projects currently included in the capital expenditure program forecasts for 2014/2015 are:

> Rebuild of Cooma, Tamworth and Yanco 132kV substations to meet end of life condition ($75 million).
> Negotiated customer connection works for Boggabri coal mine and Maules Creek coal mine ($36 million).
> Property acquisition for the future 330kV Sydney West switching station currently expected to take place in September 2014 ($26 million).
> Installation of a microwave radio network between Lismore and Dumaresq ($15 million).
> Replacement of secondary systems at Sydney West substation ($15 million).

Major projects included in the capital expenditure program forecasts for the period from 2014/2015 to 2018/2019 are:

> Substation renewal program to meet asset ageing including Canberra, Vales Point, Munmorah, Wagga Wagga, Orange and Newcastle ($237 million).
> Secondary system replacement at Sydney North and Taree substations ($87 million).
> Strategic land acquisition for the Surry Hills 330kV substation and route acquisition for a new 330kV cable as part of the Powering Sydney's Future project ($71 million).
> Remediation on the Yass - Canberra and Cooma - Munyang transmission lines ($56 million).
> Construction of Wallaroo 330kV switching station ($42 million).
> Replacement of Beaconsfield 330/132kV transformers ($41 million).
> Rehabilitation of Cable 41 between Beaconsfield and Sydney South ($31 million).

Appendix 3: 2014/2015 Financial Forecasts

Table 1: Profit and Loss Forecasts

$millions (nominal dollars)	2013/14 Outturn	2014/15 Forecast
Network income	878	856
Non-regulated and negotiated services income	32	48
Total income	**910**	**904**
Controllable operating expense	184	190
Other expenses	13	15
Operating costs	**197**	**205**
EBITDA	**713**	**699**
Depreciation	240	250
Financing charges	157	192
Profit before tax	**316**	**257**
Tax expense	100	81
Profit after tax	**216**	**176**

For the financial forecasts:

> Transmission network income for the 2014/15 forecast is based on the AER decision for TransGrid's Transitional Revenue Proposal.

> The non-regulated and negotiated services income for the 2014/15 forecast includes high voltage asset services attributable to NSCAS and Boggabri Coal mine and property services relating to the Ultimo building.

> The increase in controllable operating expense from the 2013/14 outturn to the forecast for 2014/15 includes allowance for:

- Major network asset maintenance projects.
- Scope changes which are driven by an increase in network asset maintenance for new assets, additional regulatory obligations under the AER's regulatory information requirements guidelines, transfer of system operator functions from the Australian Energy Market Operator (AEMO) to TransGrid and corporate initiatives that are aimed at positioning the organisation for a more competitive future.

- An increase in expenditure on innovation demand management including collaboration with stakeholders, market research for demand response and network constraints, and trialling new technology for energy storage and solar integration.
- Make good costs including the removal of communication equipment under the lease arrangement for the former 201 Elizabeth Street office.

> The 2014/15 forecast for other expenditure includes an allowance for network support activities associated with the deferral of the proposed underground cable which forms part of the Powering Sydney project.

> The increase in depreciation for the 2014/15 forecast is as a result of the expected bringing into service of a number of assets including: Western Sydney Supply project comprising Holroyd and Rookwood Road substations, Holroyd to Rookwood cable and Sydney West to Holroyd transmission line augmentation, Wallerawang substation, Yass and Murray 330kV reactors for the provision of Network Support Control Ancillary Service (NSCAS) to AEMO, Supervisory Control and Data Acquisition (SCADA) upgrade and negotiated connection assets for Boggabri Coal Mine.

> The financing charges for the 2014/15 forecast takes into account an increase in the overall cost of funds compared to the 2013/14 year and an increase in new borrowings mainly to fund the 2014/15 capital program.

> The 2014/15 forecast for profit after tax of $176 million comprises $164 million for prescribed services and $12 million from non-prescribed services.

Appendix 4: External Environment – Supporting Information

Appendix 4a: Regulatory reform

Regulatory Information Notices

During the AER's Better Regulation program, the regulator stated that it intended to collect a large amount of data from the network businesses, both annually and prior to each revenue reset, to support its expenditure benchmarking activities. The AER has indicated that it will use the data in the preparation of its new annual benchmarking reports and, in revenue determinations, to impose reductions in expenditure allowances for businesses that are not at the 'efficiency frontier' in its benchmarking.

The annual information includes both aggregated information to support 'top down' economic benchmarking and detailed information to support 'bottom up' benchmarking and trend analysis of expenditure categories. The reset-specific information would include further detailed 'bottom up' information the AER can use when reviewing a revenue proposal.

The final economic benchmarking RIN was issued to TransGrid in November 2013 and the final category analysis and revenue reset RIN was issued to TransGrid in March 2014. TransGrid provided responses to both in March and June 2014, respectively. Beyond responding to the RINs, there remain a number of important issues to settle with the AER: ensuring that the data collected is used to make meaningful comparisons, that appropriate confidentiality arrangements are in place in terms of using that data and, given the cost burden to businesses involved with complying with the RINs, that the process actually delivers a net benefit to consumers.

Reform of the regulatory framework

The last few years have been a time of change for the industry and a number of changes have been made to the regulatory framework to reflect this. However, the business environment is expected to evolve even further in coming years. This raises the question whether the regulatory framework requires a more significant redesign to ensure that it remains fit for purpose. The Council of Australian Governments (COAG) Energy Council, comprising the Federal and State Energy Ministers, recently directed that officials review the matter and report their preliminary findings back to the Council by the end of calendar 2014. Changes to the framework could have a major impact on TransGrid's business. TransGrid is working both directly and through its industry associations (Grid Australia, the Energy Networks Association (ENA) and the Energy Supply Association of Australia) to ensure that its interests are strongly represented in that process and beyond.

NEM governance reviews

Industry participants have for some time been calling for an independent review of the governance and resourcing arrangements of the three key NEM institutions, the AER, AEMO and the AEMC. This is to ensure that they too remain fit for purpose moving forwards. In December 2013 the Energy Council agreed to conduct that review. In its request for the review, the industry indicated its preference that the AER be structurally separated from the Australian Competition and Consumer Commission to ensure that the AER operated independently, transparently and accountably and that it had the appropriate resources to do so. The State Members of the Energy Council expressed their support for this view.

The Energy Council is currently settling the review terms of reference. It is expected that the review will begin in mid 2014. TransGrid is working with its peers to further develop industry positions ahead of the review getting underway.

AEMC Transmission Frameworks Review

The AEMC published its final Transmission Frameworks Review report in April 2013. The review concerned co-optimising generation and transmission investment in the NEM. Two key AEMC recommendations were:

> to design and test a framework for providing generators with optional firm access (OFA) to the transmission network, with potential implementation in four years' time. Under the model, generators would have a guaranteed ability to physically dispatch capacity or would be paid the financial equivalent of doing so when the system was constrained. Transmission businesses would plan their networks to be able to deliver the agreed firm access as well as continue to meet reliability standards for end-use consumers. Incentive mechanisms would reward (punish) transmission businesses for exceeding (failing) to meet the agreed access levels;

> a series of reforms designed to improve consistency in the way that transmission businesses carry out their planning as well as AEMO undertaking jurisdictional energy forecasting down to the connection point level; and

> contestability for provision of transmission assets required to connect generators including those assets that also service the shared transmission network.

The AEMC and AEMO are currently conducting the detailed design and testing of a potential OFA model and are due to report back to the Energy Council in mid 2015. The Energy Council is then expected decide whether or not to proceed with OFA. The Council expects to lodge with the AEMC later in 2014 a proposal to amend the National Electricity Rules to make transmission connections contestable. Finally, AEMO plans to publish its first jurisdictional connection point forecasts (covering NSW) in mid 2014.

Each of these changes has the potential to impact the way that TransGrid conducts its business and the organisation will continue to work both directly and through its industry associations to ensure that those changes are appropriate.

AEMC's review of the national framework for transmission reliability

In late 2012 the Energy Council directed the AEMC to prepare a national framework and methodology for setting transmission reliability standards. The AEMC published its final report in November 2013 and its recommendations were generally consistent with the model initially developed by TransGrid and promoted through Grid Australia, namely an economically derived, deterministically expressed standard.

Current expectations are that, sometime in 2014, the Energy Council will endorse a version of the AEMC's recommendations that each jurisdiction may then choose to sign up to. Queensland has already implemented changes to its standards that broadly reflect the AEMC's recommendations. TransGrid supports the adoption of the AEMC's recommendations subject to further clarity around how low probability, high impact events will be taken into account, what the penalty (if any) would be for not meeting the new standard and whether exemptions would apply where the cause is outside the business's control. TransGrid is also currently modelling how the standards may apply in practice.

Appendix 4b: Possible change of ownership

In June 2014 the NSW Government announced that it will undertake a long term lease of 49 percent of the State's electricity network businesses. The remaining 51 percent of the total network that is not leased will remain in public hands and held in the NSW Future Fund.

Scoping Study

It is expected that a Scoping Study will be the first significant piece of work to be undertaken in the lease process and that this study will commence early in the 2014/2015 year. The Scoping Study will consider the assets available for lease, the optimal portfolio structure (bundling or reconfiguring assets) to maximise portfolio lease value and the order and form of the asset lease. The scoping study will form a view on the depth of the market for potential buyers of the assets and determine an indicative value of the assets.

The NSW Government will likely consider any refinements needed to the regulatory environment in anticipation of the networks being transferred to the private sector and any associated legislative changes. A review of the technical regulatory standards applicable in NSW is also expected.

TransGrid will support the NSW Government in undertaking this Scoping Study.

Future readiness

Over the coming months TransGrid will ensure that the organisation is ready for any possible change in ownership. Ensuring all aspects of the business are in order, in readiness for the lease process, is a priority for the business over the next six to nine months and a comprehensive internal review will be undertaken to ensure this is the case.

Preparatory work in readiness for technical, environmental and legal due diligence will commence in the second half of 2014.

Consultation

TransGrid will work with the NSW Government and its advisors, being proactive on addressing and resolving issues.

Appendix 4c: TransGrid's customers

TransGrid works closely with its direct customers to plan, develop, and manage the network to ensure the services they expect continue well into the future. In this regard TransGrid has a number of customer segments namely:

> Electricity distribution businesses including ActewAGL Distribution and Networks NSW;
> Other National Electricity Market transmission network service providers;
> Existing directly connected electricity end users including Norske Skog Paper Mills (Australia) Limited, Tomago Aluminium and Visy Pulp and Paper Pty Limited;
> Intending directly connected electricity end users;
> Existing directly connected generators including Delta Electricity, Eraring Energy, Macquarie Generation, Snowy Hydro Limited, Renewable Power Ventures, Origin Energy and Goldwind Australia;
> Intending directly connected generators;
> AEMO; and
> Market participants and intending participants connecting to other parts of the national transmission grid.

Over the past few years TransGrid has worked hard to improve the customer experience. Each year a comprehensive customer survey is undertaken. This survey highlights areas for improvement from a customer perspective. The overall customer experience score in 2013 was 67.6%, which is below the customer satisfaction benchmarks of top performing Australian and USA utility companies of around 75%. Each year a detailed action plan is developed to address areas for improvement from the survey. **Figure 6** shows the 2013 customer survey results by customer type and touchpoint.

Figure 6: 2013 Customer Survey results by Customer type and Touchpoint

Customer Type	Overall Customer Experience	Touchpoints	Overall Customer Experience
Generator	60.7	Submitting enquiry	65.8
Industrial Load	74.7	Progressing initial enquiry	67.8
DNSP/TNSP	74.8	Negotiating agreement	64.0
Other (NEM and Transmission Line Deviation)	70.5	Pricing/invoicing enquiry	71.0
All customers	**67.9**	Construction	77.04
		Outage planning/notification	65.5
		Other	67.0
		All Touchpoints	**67.9**

Appendix 4d: TransGrid's consumer engagement program

During 2013/2014 TransGrid commenced a comprehensive consumer engagement program, established as an ongoing dialogue between TransGrid and consumers that will inform TransGrid's business plans into the future. A summary of the consumer engagement activities undertaken includes:

> **Consumer roundtables** – to understand high level views of consumers in both urban and rural areas.

> **Consumer website** – a consumer focussed website was developed that allowed TransGrid to continue the thematic discussion with consumers, drawing on insights taken from the consumer workshops.

> **Deliberative forums** – TransGrid reflected on the content of the full day workshops with consumer representatives and large energy users, and then went back to consumers with a series of market research focus groups (known as deliberative forums).

> **Consumer survey** – of more than 1,000 consumers on their energy consumption attitudes, current behaviours and future intentions. This information was gathered to help interpret energy forecasts and inform future planning requirements.

> **Improvements to the community consultation processes** – over the past 18 months TransGrid has undertaken a number of measures to improve its consultation with the community, and how it plans and delivers projects to communities, with the outcomes being that TransGrid will start conversations with the community earlier, involve the community in decision making processes and collaborate to develop effective, sustainable and holistic energy solutions.

> **Annual Planning Report** – each year TransGrid publishes a Transmission Annual Planning Report (TAPR), a public document which provides clear and relevant information on TransGrid's proposed network investment plans. While the current main audience for the TAPR is interested parties such as market participants and industry representatives, TransGrid is currently reviewing how to best extend the role of the TAPR to inform consumers about its plans on an ongoing basis.

In addition, social media is a medium that is becoming increasingly important in engaging the wider stakeholder audience. In future there is a need for TransGrid to both monitor activity and actively engage with consumers via the use of this medium. Social media will be used to improve the communication of emergency messages and as a recruitment tool for the business.

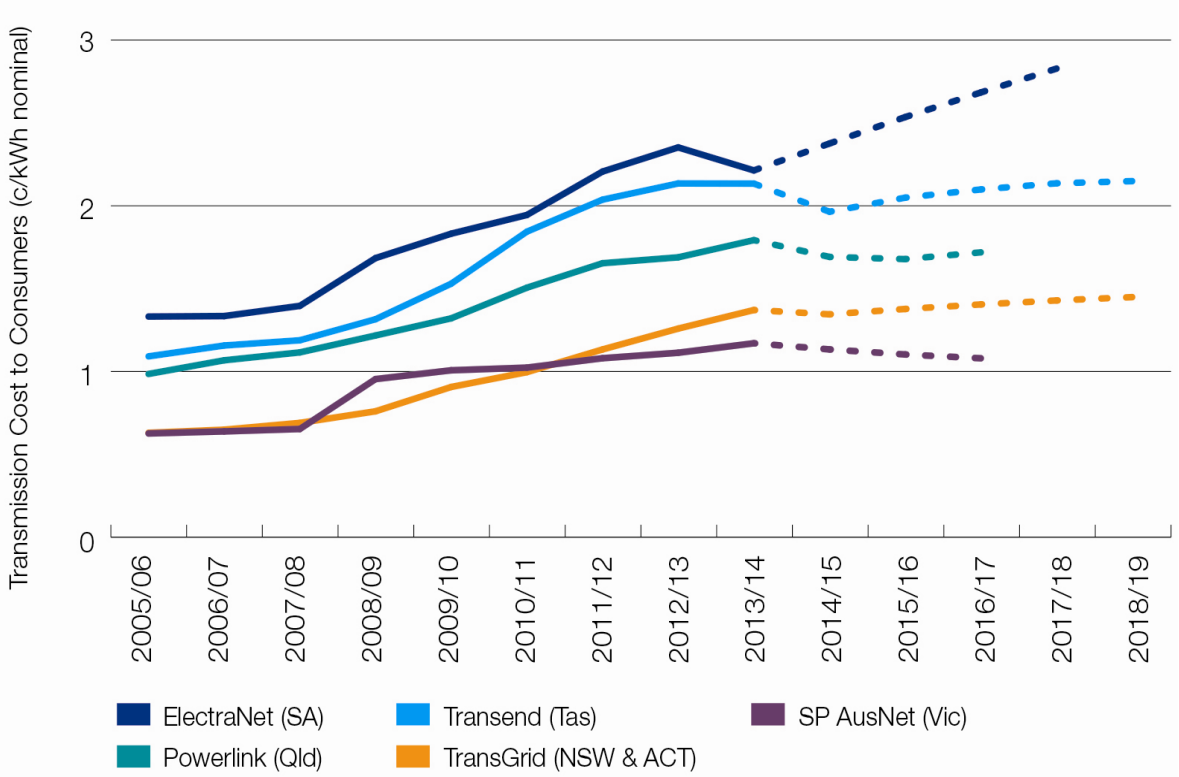
Appendix 5: Internal Business Capabilities

Optimise regulated business

Minimise cost of service delivery

On the basis of traditional measures TransGrid's overall performance compares well with other transmission companies. One 'traditional' comparison is on the basis of cost per KWh as shown in **Figure 7**. Electricity consumers in NSW and the ACT currently pay amongst the lowest transmission costs in the NEM. **Figure 7** shows historical and forecast contributions of the major transmission networks in the NEM to an indicative consumer bill.

Figure 7: Cost to Consumers



Source: AER performance reports and transmission revenue determinations

Operating expenditure

TransGrid has undertaken a thorough review of its business activities with the objective of lowering the forecast operating expenditure for the 2014-2019 regulatory control period. Over the last regulatory control period, TransGrid has made a number of sustainable changes and reduced its operating expenditure through process efficiencies and business improvements which have included:

> The transition to a "virtual control room" for operating the network and closure of one control room, and rostering improvements to better match workload.
> Transfer of external insurance cover to SiCorp, the NSW Government self insurer.
> A change in the sourcing mix of information technology activities and strong negotiation of efficiency in information technology contracts.
> A reduction in travel, following installation and increasing use of video conferencing.
> Review of fleet management including the standardisation of vehicles and consolidation of contracts.
> Consolidation of inventory warehouses to one warehouse in each of TransGrid's regions.
> A change in sourcing mix for internal audit activities to include outsourcing.

Managing changes to the capital works program

The successful implementation of the capital works delivery program is vital to TransGrid in meeting its obligations to provide a reliable transmission network as demand for transmission capability varies over time and assets reach end of life.

TransGrid has deferred over $600 million of capital expenditure in the 2009-2014 regulatory period in response to changes in electricity demand. Consumers directly benefit from these decisions with forecast revenue over the next five years some $230 million lower due to the deferrals. TransGrid has connected renewable generation, pursued low cost methods of improving the capacity of flow paths and improved project initiation and delivery processes to be able to respond more rapidly when short notice needs arise.

The mix of capital expenditure for the 2014-2018 period is significantly different from any period in recent history for TransGrid. In particular load driven investment is small, reflecting the significant change in recent electricity usage. In contrast, replacement expenditure has increased significantly from the 2009-2014 period, reflecting many of the assets built during the establishment of the transmission network in the 1950s and 1960s reaching the end of their serviceable lives.

Notwithstanding the downturn, an expenditure program that is still significant in historical terms is warranted.

It is expected that TransGrid's investment plans will be subject to a higher level of scrutiny, both from the AER and other stakeholders. At the same time TransGrid will be seeking to increase its levels of non-prescribed investments. This, in turn, has a range of implications for the business that will need to be accommodated.

Information and communications technology management

TransGrid has strong and effective arrangements for capitalising on information and communications technology. These arrangements are suited to improving business efficiency and enabling business transformation.

'Project Symphony', the upgrade of TransGrid's enterprise resource planning system, has enabled a high degree of employee and manager self service, and for the first time, provides one authoritative source of capital program information for more effective management by all stakeholders.

Future opportunities for information and communications technology to contribute to meeting the changing needs of the business include:

> Supporting the implementation of the asset owner/service provider model for the high voltage network.
> Increasing the technical convergence of operational technology based on real time information about asset condition and management related information technology offering should lead to major improvements in asset utilisation.
> Implementing an effective business intelligence platform.
> Capitalising on the increasing scope and maturity of 'cloud' based services including using 'off-site' infrastructure and platforms.

Clarity of roles in the delivery of core transmission services

In 2012/2013 TransGrid commenced a project to implement the Asset Owner – Asset Manager – Service Provider Business Model to enhance the asset management framework. This Asset Owner – Asset Manager – Service Provider Business Model is widely used by infrastructure organisations and is considered to be best practice.

These arrangements provide for clear internal service provision roles that can be either outsourced or expanded by providing those asset management related services to new external customers. Importantly, the business model TransGrid is implementing not only captures infrastructure service provider roles, but also dissects the business support functions into service roles and a smaller set of asset owner roles. The outcome should see the organisation having a strong customer service orientation.

This business model addresses the requirements of an internationally recognised asset management standard "PAS 55" for infrastructure organisations by clearing assigning roles and responsibilities. PAS 55 has now been revised and reformed into an international standard ISO 55000 that was released in early 2014.

Over the past two years TransGrid has progressively transformed its existing asset management system and its business model and in early 2014 undertook a pre-certification audit currently reviewing its internal arrangements with reference to PAS 55 and ISO 55000. The organisation is planning to gain certification by late 2014.

Maximise service incentive outcomes

The contribution to revenues from the service incentive schemes from calendar year 2013 is $8.7 million. This is predominantly the result of a strong outcome from the market incentive component of the scheme. Maximising outcomes from service incentive schemes is moderated by other important considerations such as ensuring sufficient access to out of service plant to integrate new construction and maintenance.

The ability to maximise incentive scheme outcomes in future years can be expected to significantly reduce due to the changes to the incentive schemes that are being progressively phased in by the AER over the next 12 months.

Grow new profitable business

In recent years TransGrid's commercial performance has been characterised by strong growth in profits, maintaining a strong balance sheet in and stand alone credit rating, while still delivering a major capital investment program. A major factor in these outcomes has been a strong revenue base associated with increases in prescribed transmission charges for the 2009 to 2014 regulatory control period.

As already noted the rate of growth in prescribed transmission charges determined by the AER for the next revenue reset period is uncertain.

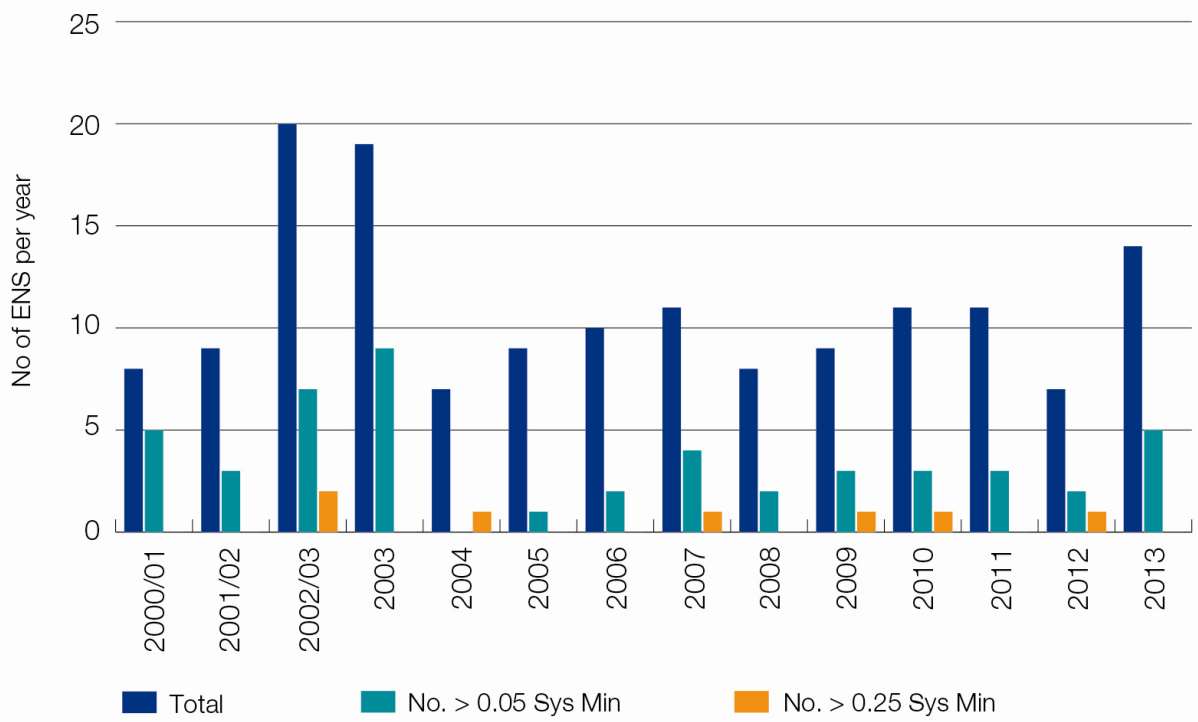
TransGrid and its people have limited recent experience in competing for customers to provide new profitable revenue streams, particularly to compensate for potential reductions in profit. In addition, finding cost reductions of a scale sufficient to compensate will also test leadership capability, particularly given the fixed cost nature of the core business. TransGrid recognises this challenge and as noted will focus on initiatives that will promote a customer service orientation, hence supporting the growth of new profitable business.

Service the market

Maximise network reliability

TransGrid's performance in delivering a reliable transmission service has generally improved over time as **Figure 8** shows and appears to be remaining within historically acceptable levels. The key measure that has been adopted is the number of events where the impact of each event exceeds a certain threshold (measured in system minutes). These have been developed in consultation with the AER and have been shown to be statistically stable for the purposes of monitoring reliability performance over time.

Figure 8: Historical Number of Energy Not Supplied (ENS) Events per year



This outcome reflects investment decisions driven by standards set by Government which are also consistent with good international practice. Design standards, equipment procurement practices, and effective maintenance and operating practices also contribute to this outcome.

Contribute to our community

Environmental Management

TransGrid's environmental management has continued to be effective in relation to work undertaken by TransGrid employees and contractors. However, further aspects that would benefit from improvement include linking safety culture program with environment, reducing the complexity of environmental processes to look for environmental value add opportunities to attract and support customers. TransGrid will continue to monitor and measure the environmental performance of contractors and will focus on reducing its environmental footprint.

Our People

The organisation is committed to fostering a performance culture which involves developing, recognising, valuing and empowering TransGrid's people. The performance culture of the organisation is considered to be critical in delivering the organisation's objectives.

TransGrid has a highly skilled workforce which has benefited from an influx of capable new apprentices and graduates in recent years. In addition, employee turnover is low and TransGrid has been able to retain employees with many years of experience in electricity system management and the changing role of TransGrid within a radically restructured industry.

An employee engagement survey was conducted in late 2010 and confirmed relatively high levels of employee engagement. This survey was repeated in 2012 and the level of employee engagement increased, although marginally, from 56% in 2010 to 58% in 2012. A further engagement survey is due to be conducted in late 2014.

In early 2013 TransGrid launched its first survey around organisational culture. Engagement looks at the level of commitment people have to delivering organisational objectives. However, culture is generally defined as the values, attitudes, beliefs and behaviours that are followed and adopted each day. These are the deeply held aspects of an organisation's identity that are often hard to access.

It is recognised that TransGrid is a technically competent organisation with a strong ethical orientation. It values teamwork and delivers a sophisticated core service. However employee perceptions of the current culture, as seen by the Culture Survey results suggest that there is room for improvement, especially around adaptability and being able to translate the demands of the business environment into action. This includes being better able to create change, being more customer focused and improving organisational learning.

Leadership, particularly senior leadership, provides the crucial link in delivering customer focussed improvement and innovation, and more effective organisational learning.

The leadership traits for success in the recent past have included strong technical leadership and general management skills. A focus on consistency of outcomes and a sound basis for operational decision making has been, and remains important.

An enabler around enhancing leadership performance has been identified with the aim being to create a TransGrid where leaders will be proactive, commercially orientated, people focused, change centric leaders. In addition, leaders will empower their people to achieve the organisation's vision, mission and objectives. TransGrid's Reward and Recognition Framework encourages managers and team leaders to recognise and celebrate the achievements of individual employees and teams by incorporating reward and recognition into everyday practices. In addition a short term incentive scheme exists for senior managers.

Moving Forward with Diversity

Diversity is an intrinsic part of TransGrid's culture and success. The organisation is committed to providing diversity groups with opportunities. The organisation also acknowledges that there is more to do in this area, which is why over the next year TransGrid will further embed diversity policies across the business and advocate the benefits to TransGrid's people.

During 2013/2014 a number of activities and strategies have been put in place to assist diversity now and into the future. These key strategies include:

> establishing partnerships with external community groups, universities/TAFE and diversity specialists,
> working with external recruitment agencies to identify suitable candidates, for example, disability and indigenous recruitment providers,
> sponsoring diversity activities at TAFE and universities to encourage study in key technical areas and to identify potential candidates,
> direct recruitment activity both at attraction and formal recruitment stage,
> training to managers and employees on Equal Employment Opportunity and Diversity,
> improvements to, and promotion of internal policies such as workplace flexibility and development programs,
> trades and engineering programs for indigenous youth and young female students,
> promotion and education around relevant diversity days, for example, National Aborigines and Islanders Day Observance Committee (NAIDOC) week and International Women's day,
> Annual Diversity and Inclusion Framework, and
> formation of Diversity and Inclusion Committee

These program and strategies will continue to be utilised and where necessary will be added to or improved to move towards the targets for 2014/2015, as shown in **Figure 9.** An external review of all programs and strategies will be undertaken in early 2014/2015 to ensure best practice in this area.

Figure 9: Diversity Targets

	1 Year (2014/15 Targets)	2 year	5 Year
Women	> 18% are women	> 25% are women	> 30% are women
	> 15% of all senior positions – Board members, senior leadership and senior technical roles – are women	> 22% of all senior positions – Board members, senior leadership and senior technical roles – are women	> 30% of all senior positions – Board members, senior leadership and senior technical roles – are women
Aboriginal & Torres Strait Islander (ATSI)	> 1% are Aboriginal or Torres Strait Islander	> 2.6% are Aboriginal or Torres Strait Islander	> 3% are Aboriginal or Torres Strait Islander
Culturally and Linguistically Diverse background (CALD Backgrounds)	> 20% are from a Culturally and Linguistically Diverse background	> 22% are from a Culturally and Linguistically Diverse background	> 25% are from a Culturally and Linguistically Diverse background
Disability	> 4% have a disability	> 4.5% have a disability	> 5% have a disability
	> 1.5% have a disability requiring adjustment at work	> 2% have a disability requiring adjustment at work	> 2.5% have a disability requiring adjustment at work

Health and Safety Management

TransGrid is continuing to focus on minimising the incidents that have a potential to result in a fatality or serious injury, incidents called 'high consequence incidents' (HCI). The lost time injury frequency rate has also reduced for TransGrid employees which has been the trend over recent years. **Figure 10** indicates the number of serious incidents per 1000 employees which favourably benchmarks TransGrid's safety performance against industry.

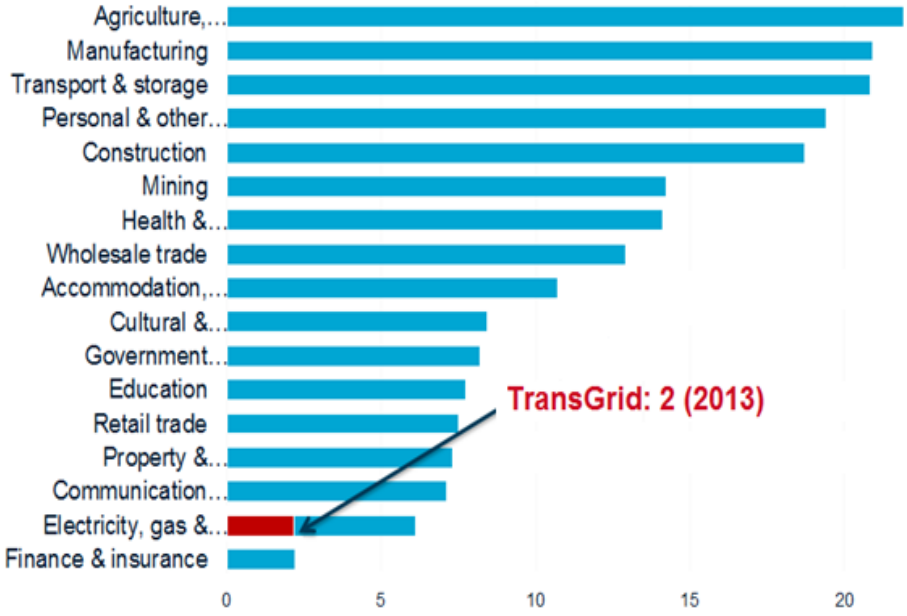
The safety performance of contractors continues to be of concern, especially since the organisation has required contractors to thoroughly investigate HCIs. Many of the HCI investigations conducted over the past 12 months lead to safety culture issues. Safety culture can be simply defined as "the way we do things around here".

Another related area for improvement includes how the organisation engage, appropriately control, report on and measure contractors and Principal Contractor's safety performance. There have been some challenges during 2013/2014 where contractors were not performing to TransGrid's satisfaction.

Removing risk assessment complexities while implementing key high consequence risks will improve the understanding of HSE risks and provide a platform whereby effective risk assessments and incident investigations can be performed.

TransGrid is committed to assessing and measuring the safety culture of the organisation to ensure continuous improvement and moving to the next level in terms of safety culture, engagement and performance. TransGrid's Board is actively and visibly involved in health and safety management and is demonstrating this commitment by examining and learning from other safety conscious industries, for example, aviation, oil and gas and mining.

Figure 10: Serious injuries per 1000 employees



(Source: Safe Work Australia 2013)

Risk Management Plan

The Board of TransGrid is committed to risk management at all levels of the business. This commitment is demonstrated by the activities of the Board Audit and Risk Committee and TransGrid's risk management process. The nature of activities associated with risk management include:

> Key risk assessment at the Board and Executive;
> Explicit risk assessments and development of risk management plans for each Business Unit;
> Provision of health and safety related risk training for employees; and
> Provision of guides and tools for any person within TransGrid to complete a risk assessment and develop action plans for managing the risks identified.

Key risks are owned by members of the Executive and all other risks are owned by the Group Managers within the Business Unit involved or by several Group Managers if a risk crosses several Business Units.

Risk management is considered in all significant business decisions conducted by TransGrid. A key risk assessment is undertaken by the Board Audit and Risk Committee with the support of Executive. The Committee regularly assess the risks facing the organisation and reviews progress towards managing these risks.

In addition, an Executive Audit and Risk Committee (EARC) ensure all significant business and operational risks are identified and managed. This committee is supported by the Corporate Audit and Risk Group which facilitates risk assessments and provides a framework and support for risk management activities to TransGrid employees. An external service provider supplies specialist skills where necessary to ensure the right skills are applied to risk management reviews. The Corporate Audit and Risk Group also undertakes a risk based audit programme.

The EARC ensures there is a coordinated approach and focus to risk management. Risk assessments are conducted for all Business Units and each Business Unit has risk management plans in place. In addition, a number of other specific risk areas such as environment and health and safety are managed through dedicated Executive Committees and associated risk management programs.

Overview of Risk Management Process

TransGrid's risk management system is based on the AS/NZS Risk Management Standard and is outlined in a number of documents including:

> Risk Management Framework;
> Board Audit and Risk Committee Charter;
> Board Health and Safety Committee Charter; and
> Executive Audit and Risk Committee Charter.

The organisation has structured its risk planning process into two areas: key risks and operational risks.

The key risk assessment is reviewed at least quarterly by the Board Audit and Risk Committee and the Executive Audit and Risk Committee.

An operational risk assessment is undertaken on at least an annual basis and is incorporated into the business planning process. Monitoring of operational risks occurs on a regular basis, with escalation of high or extreme risks to the Executive and Board Audit and Risk Committees.

Specific fraud risk assessments are undertaken every three years and are an input into the audit programme.

Identified risks are rated using a standardised matrix and those rated above a certain level require mitigation strategies to be developed. These strategies are then incorporated into the business unit plans.

Key Risk Assessment

An extract of the key risk assessment is provided as **Figure 11**.

Internal Control

TransGrid develops a three year risk based audit plan with an annual focus. The plan is developed in line with TransGrid's objectives, taking into account the following:

> TransGrid's key risks;
> TransGrid's operational risks;
> the specific annual plans and directions of all other compliance activities such as health and safety, environmental and technical performance;
> Input from the Board and Executive Health and Safety Committees; and
> Input from the Board and Executive Audit and Risk Committees.

The plan and any amendments thereto are approved by the Board Audit and Risk Committee.

Audit findings are rated based on the risk to the organisation using the risk matrix as identified in TransGrid's "Risk Management Framework".

Summary of findings from audit reports are reported to the Executive Audit and Risk Committee and Board Audit and Risk Committee.

Corrective actions and improvement opportunities are logged in the TransGrid Issues Management (IMS) System. The findings are assigned to responsible officers identifying agreed actions and due dates and are then tracked for completion. Corporate Audit and Risk undertakes a review of close out actions and prepares a report on the status of issues including issues that are overdue or continue to have the close out date extended to the Board and Executive Audit and Risk Committees.

Figure 11: TransGrid's Key Risks

Risk Description
Safety of people
Changes to the national industry structure
Strategic Asset Management
Delivery of network assets
Observable asset failure
Commercial performance
Compliance
Environmental management
Management of customer obligations
Workforce management and engagement
Critical IT systems
Fraud and Corruption
Reputation
Agility and ability to respond to change

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