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1 Summary

This chapter outlines the governance framework implemented for the Project by Snowy Hydro, and the key activities undertaken to support the effective operation of the framework through to Final Investment Decision (**FID**) and Project execution.

1.1 Introduction

Snowy Hydro is a high-profile organisation proposing a high-profile project. Snowy Hydro's Board and stakeholders, including its Shareholder, investment stakeholders and the community, expect robust governance over the Project to deliver transparency, accountability and success.

An effective governance framework facilitates appropriate oversight, accountability and risk management at all levels of the Project.

On 13 December 2017, the Snowy Hydro Board noted the completion of the Snowy 2.0 Feasibility Study Report into the construction of the Project and approved the Project proceeding to FID. Following this, Snowy Hydro commenced preparation to seek Board approval for FID. As part of the process, Snowy Hydro reviewed and adapted its governance framework to facilitate fit-for-purpose governance tailored to the complexity, nature and scale of the proposed Project.

This included the establishment of additional governance bodies dedicated to the Project to support the Board in meeting its responsibilities, and the implementation of targeted monitoring, reporting and assurance activities to facilitate effective governance.

As Owner, Snowy Hydro assumed accountability for the governance of the Project. Snowy Hydro's preparatory work and due diligence between the completion of the Feasibility Study and FID, progressing the Project in preparation for Board consideration, is referred to as the FID Preparation Process.

A dedicated oversight and governance structure has been established to ensure Snowy Hydro's obligations as Owner are being met by the Owner's Team. Fiduciary, legal, commercial, environmental, and health and safety oversight of Project activities is facilitated by this structure.

The Project's governance structure is robust, appropriate and fit for purpose. It facilitated the timely provision of all relevant information to the Board and assisted in meeting the governance responsibilities ahead of FID.

1.2 Scope and exclusions

Governance describes the governance framework and activities applicable to the Project and Snowy Hydro. It does not include specific detail of Contractor and Owner's Team obligations in support of the governance framework, or Project

controls systems and processes used to meet governance requirements (see *Supporting Chapter Fourteen*).

1.3 Activities undertaken

For the Pre-FID phase of the Project, Snowy Hydro established and implemented an effective governance framework over the Project. In doing so, Snowy Hydro engaged extensively with its Board and Shareholder to ensure the framework facilitated the provision of timely and comprehensive governance information to both parties.

Snowy Hydro adopted a five-step governance framework based on effective project governance recommendations from the Project Management Institute (*PMI*):¹

1. **Initiate** - Snowy Hydro developed a fit-for-purpose governance structure to support Board oversight of the Project through to FID, comprising a Project Board Committee, a Funding Board Committee, a Project Governance Committee, and a Project team;
2. **Plan** - Snowy Hydro established mechanisms for engaging with each of its governance stakeholders, particularly the Board and Shareholder, with the nature and frequency of these mechanisms tailored to meet stakeholder needs;
3. **Execute** - the governance framework was implemented and has operated since early-2018. The Shareholder has received regular Project updates from Snowy Hydro. The Board has been kept updated on material developments and risks, and key outcomes arising from Shareholder engagement. Similarly, the various Committees have received comprehensive formal progress updates on matters within their purview;
4. **Monitor and control** - the Project Director is accountable for controlling the Project management process with assistance from the workstream leads and the broader Project Team. Key outcomes of the control process have been communicated to governance bodies via formal governance reports; and
5. **Close (Assurance)** - the Project has implemented a robust risk management framework developed in conjunction with a third-party subject matter expert and has engaged a number of expert advisors to provide independent advice and quality assurance.

1.4 Governance status as at FID

This Project was subject to a clear and tailored governance structure.

The frequency and provision of information at each of the meetings of governance bodies was aligned to the needs of the Project.

All governance bodies received all relevant information to discharge their governance responsibilities over the Project and to make an informed FID. The

¹ (Alie 2015).

Project's governance is considered to be appropriate at each level of the structure for the effective development of the investment case for FID.

1.5 Approach post-FID

The existing governance framework will be retained from FID through to the execution of the Civil and Electrical/Mechanical (**E&M**) Engineer-Procure-Construct (**EPC**) Contracts (or a single 'wrapped' Contract) . The frequency of meetings for governance bodies will be tailored to align with key milestones during this phase of the Project.

Subsequently, a revised governance framework will be implemented to reflect the evolving nature of the Project. The revised framework will continue to facilitate timely oversight of strategic developments and risks, and will be tailored to ensure it effectively addresses changing Project needs, milestones and stakeholders.

2 Activities undertaken

Snowy Hydro undertook a series of activities to establish and implement an effective governance framework over the Project. In carrying out these activities, Snowy Hydro considered good practice project governance requirements as specified in the PMI Project Governance Framework Model given in Figure 1.



Figure 1: Cyclical project governance framework and underlying governance components²

² (Alie 2015).

2.1 Initiation and establishment of the governance framework

Snowy Hydro's key governance stakeholders comprise its Board and Shareholder respectively. Snowy Hydro is seeking approval from its Board for FID on the Project, and approval from its Shareholder for a change in the Company's scale in accordance with the requirements set out in its Constitution.

Snowy Hydro established a fit-for-purpose governance structure to support Board and Shareholder oversight of the Project through to FID. The structure was tailored to reflect the nature and complexity of the Project, and to provide the Board with the requisite information and assurance required to make an informed decision on the Project as at FID.

The Project has received extensive attention and consideration at each meeting of key governance bodies since its inception.

Snowy Hydro has also engaged extensively with its Shareholder to ensure it has comprehensive and timely visibility of strategic developments and risks pertinent to the Project.

2.2 Planning - approach to engaging with governance stakeholders

2.2.1 Approach

Snowy Hydro has implemented a strategy for identifying and engaging with stakeholders, including government and regulatory bodies, industry, local communities, and the public. Details of the overarching strategy are set out in *Supporting Chapter Twenty-One - Stakeholder strategy and engagement*.

In establishing mechanisms for engaging with each of its governance stakeholders, Snowy Hydro considered stakeholder roles and expectations, communication and reporting channels, and the nature and frequency of meetings appropriate for the scale of the Project.

2.2.2 Board engagement

Snowy Hydro's Board received comprehensive information to assist it in discharging its fiduciary and governance responsibilities throughout the FID preparation process. In addition to regular standing updates from management on key developments and risks, the Board proactively sought and received further information on topical matters to help inform their consideration and decision making on the Project.

Snowy Hydro's Board received information on the Project via a governance structure developed specifically for the Project and tailored to meet governance requirements for a Project of this scale.

2.2.3 Shareholder engagement

Snowy Hydro will be seeking approval to proceed with the Project from its sole Shareholder, the Commonwealth Government. In accordance with Snowy Hydro's

Constitution, Shareholder approval is required as the Project will result in a change in the scale of the Company's activities.

Snowy Hydro has engaged extensively with the Shareholder throughout the FID preparation process to ensure the Shareholder has all requisite information to inform its decision on the Project.

2.3 Execution of the governance framework

2.3.1 General

Snowy Hydro developed a tailored governance framework for the Pre-FID phase.

The activities undertaken to implement the framework are set out below.

2.3.2 Implementation of governance structure

Each governance body in the framework has a clear remit and receives information that assist in discharging its accountabilities.

The Snowy Hydro Board is ultimately accountable for optimising Snowy Hydro's performance and maximising shareholder value. In this role, it retains accountability for approving budgeted capital expenditure on the Project throughout the FID preparation process and ultimately FID.

2.3.3 Reporting and communication

Snowy Hydro has developed and implemented standing agendas and reporting templates for each governance body aligned with its respective accountabilities.

Reports are circulated to each body prior to the meeting to allow sufficient time for members to review information. Key information from the reports is presented at each meeting, during, which members have the opportunity to ask clarificatory questions or seek further information from the Project Director and workstream leads.

In addition to the standing agenda items, governance bodies receive strategic presentations on topical matters pertaining to the Project, with a focus on the due diligence being undertaken by management to provide Snowy Hydro and the Board with requisite comfort in preparation for FID.

These have included but not been limited to presentations on management's approach to contractor safety engagement, safety and technical due diligence visits, environmental surveys, geotechnical investigation results, insights from global site visits to comparable projects, potential contracting mechanisms for Project execution, transmission augmentation requirements underpinning FID, and base case assumptions.

The Shareholder receives Project updates from Snowy Hydro via the shareholder engagement mechanisms outlined in the *Shareholder engagement* section above.

2.4 Monitoring and control

The Snowy 2.0 Project Director is accountable for controlling the project management process, with assistance from the workstream leads and the broader Project Team. The Project Team includes a dedicated project controls function that provided commercial and fiscal support for Project activities (eg cost and change control, contract administration, financial reporting) to FID (see *Supporting Chapter Fourteen*).

The key outcomes from the control process were communicated through the governance reporting mechanisms for consideration and action where required. This included monitoring of upcoming commitments and escalation of expenditure requests for consideration by the governance committees, and approval by the Board, prior to such expenditure being incurred. It further included monitoring and escalation of risks to schedule for consideration and action, e.g. via additional resourcing.

In addition to control activities, the Project Team performed significant due diligence specific to their areas of accountability. These included extensive probity checks and financial due diligence of potential contractors, site visits to assess health and safety management controls and technical performance, and updated modelling of business case assumptions. The Project Team also held Steering Committee meetings and working groups to facilitate timely communication on and resolution of material developments with both internal and external stakeholders. Details of these activities are set out in the relevant supporting chapters.

2.5 Assurance

2.5.1 Effective Project risk management

The Project has been subject to detailed ongoing risk identification, management and reporting processes that are carefully considered by the Board. In recognition of the scale and complexity of the Project, Snowy Hydro engaged an external expert to provide the Board and Executive management with assurance over the risk management processes during the FID preparation process. This robust approach to risk management has informed key workstreams and decision making across the Project.

The external expert conducted a detailed review of the activity undertaken by the Project Team to identify applicable risks, assessed this activity against comparable global projects, and provided best practice insights on risk prioritisation and treatment. They further engaged with management to develop a customised risk management matrix that reflects the nature and scale of the Project, and a comprehensive Project risk register that was regularly reviewed and updated for currency.

The Project risk register has directly informed key aspects of the Project, including contract risk allocation, contingencies incorporated into the total

contingency estimate, the insurance program, the financial modelling used for FID and the design of the Owner's Team for the execution phase of the Project.

Following the development of the register, the external expert conducted targeted deep dives to assess whether risk mitigation activities remained appropriate and emerging risks were being appropriately identified by the Project Team. Further details of the risk assessment process undertaken for the Project are set out in *Supporting Chapter Seventeen*.

The external expert has provided the governance bodies with updates on material risks applicable to the Project. Specifically, the updates set out the 'Top 12' residual risks impacting the business, the controls in place to mitigate these risks, and trends in risk rating movements since the prior report. The updates also address emerging risks and the Project Team's proposed actions to mitigate these risks. The Board considers the updates as part of its governance and decision-making in relation to the Project, including an assessment of any additional due diligence or control mitigation requirements.

The external expert has provided a formal opinion to the Board confirming the Project risk register is comprehensive, up to date, and reflects comparable external projects, and risks applicable to the Project have been managed appropriately. Further details on Snowy Hydro's approach to risk management on the Project are set out in *Supporting Chapter Seventeen*.

2.5.2 Expert advisor opinions

In addition to the assurance gained over Project risk management, Snowy Hydro engaged a suite of leading experts of international standing to provide independent advice and quality assurance on key aspects of the Project.

Project Aspect / Areas of Focus
Contracting - probity of contractor engagement process
Contracting - appropriateness of risk allocation in contracts
Insurance - appropriateness and flexibility of the insurance program
Market modelling - relevance and appropriateness of assumptions and scenarios
Schedule - credibility and achievability of the Project schedule
Cost estimates and pricing - appropriateness of total cost estimates (including pricing, client costs and contingencies)
Funding strategy - appropriateness and cost efficiency of funding package; and executability of the funding strategy
Geotechnical Investigation and Information - completion of requisite geotechnical activity; provision of available geotechnical data to tendering contractors and preparation of a report that reflects best practice on the allocation of anticipated geotechnical conditions and risks for use in contract risk allocation.
Approvals - credible basis and sound pathway for achieving Project Approvals
Tender design - the capability of submitted tender designs in meeting Employer's Requirements; and corresponding capability of Employer's Requirements in meeting the technical assumptions set out in the FID business case

Table 1: Expert Advisors and opinions

There were no material issues raised by any of the expert advisors in relation to their respective areas of focus.

3 Governance status at FID

The FID preparation process has been subject to an appropriate level of governance and oversight at both management and Board levels, which is appropriate for a project of this scale. Through that governance process, Snowy Hydro has ensured that the risks associated with the Project have been identified and appropriately assessed and managed.

Snowy Hydro has also engaged extensively with the Shareholder across all levels.

4 Approach post-FID

The existing governance framework will be retained from FID through to the execution of the Civil and E&M EPC Contracts (or a single wrapped Contract). The frequency of meetings for governance bodies will be tailored to align with key milestones during this phase of the Project.

Subsequently, a revised governance framework will be implemented to reflect the evolving nature of the Project. The revised framework will continue to facilitate timely oversight of strategic developments and risks and will be tailored to effectively addresses changing Project needs and milestones.

The governance framework will provide timely information and assurance to governance stakeholders, being the Board and the Shareholder.

5 Definitions and abbreviations

DAAB	Dispute Avoidance and Advisory Board
E&M	Electrical/Mechanical
EPC	Engineer-Procure-Construct
EY	Ernst & Young
FID	Final Investment Decision
NED	Non-Executive Directors
O&G	Oversight & Governance
PMI	Project Management Institute
PMO	Project Management Office
TESC	Tender Evaluation Steering Committee

6 Bibliography

1. Alie SS. Project governance #1 critical success factor. In: PMI® Global Congress 2015—North America [Internet]. Project Management Institute; 2015 [cited 2018 Nov 2]. Available from: <https://www.pmi.org/learning/library/project-governance-critical-success-9945>