

Budget Planning for Stay in Business Projects, Operation Group

**Procedure - How to Formulate Priorities for Expenditures
February 2009**

1. Coverage / Scope

This procedure is applicable to all proposed capex and opex Stay in Business (SIB) projects that related to physical assets of APA and to physical assets that APA manages on behalf of third party owners. This procedure will be used in Operation Group of APA.

2. Introduction

The assets are designed, constructed, operated and maintained to ensure that they will continue to meet the required level of service, at efficient life-cycle cost.

The functionality and performance requirements of existing assets (and their components) are continually reviewed to reflect changing demands of services, conditions of assets, operational risks, technological opportunities for improvement and most of all, Asset Owners business strategies.

Potential SIB projects are identified via the lifecycle planning reviews, as a part of Asset Management Plan.

3. SIB Projects

There are two groups of projects with different justification drivers:

- Efficiency improvements,
- Risk mitigation.

These projects could be budgeted as either capex or opex.

3.1 Efficiency Improvements

Capex

Asset Efficiency Improvements; consisting of projects that reduce operational costs.

Opex

Process Efficiency Improvements; consisting of projects that aim to modify the ways assets are being managed, hence improving business profitability.

3.2 Risk Mitigation

Capex

Capacity Development; consisting of projects that aim to improve reliability of contracted services.

Renewal and Upgrade; consisting of projects that aim to maintain targeted levels of compliance, safety, reliability and “shine”.

Opex

Planning, Operating and Maintenance initiatives; consisting of projects that aim to mitigate risk with no-capex solutions.

4. Prioritisation of Proposed Expenditure

The prioritisation of proposed expenditure will ensure more effective allocation and use of funding resources. It will also provide APA and third party asset owners with a balanced overview of risks and opportunities across their business – enabling the best informed investment decision making.

4.1 Prioritisation of SIB Projects – Efficiency Improvements

The prioritisation of projects in this group will be based on NPV calculations, with higher priority given to the projects with the highest profitability index. (NPV/dollars invested)

The Project Submission Form for SIB Projects with economic opportunities as justification is presented in Appendix A.

4.2 Prioritisation of SIB Projects – Risk Mitigation

Every project in this group will be analysed for untreated risk and residual risk, with ratings of Likelihood, and Consequence. Risk Level to be assigned based on the APA Risk Management Policy (under revision). The Risk Matrix to be used for SIB Project assessment in Operation Group of APA is presented in Appendix B.

Untreated risk is the current risk exposure and residual risk is the risk after that the proposed project has been implemented.

The Project Submission Form for SIB Projects with risk mitigation as justification is presented in Appendix C.

The Risk Level of the project will determine the allocation of that project into one of four priority groups.

Projects within each Priority will be listed in descending order of potential for cumulative risk reduction.

Priority 1

Any project, where Risk Level of at least one risk area falls into Extreme must be included in Priority 1. These projects should be regarded as non-discretionary, as their justification is to mitigate the risk level that is not acceptable to APA.

Priority 2

Any project, where Risk Level of at least one risk area falls into High must be included in Priority 2. The non inclusion of these projects may expose APA, or third party asset owner to potential short and long-term business damage.

Priority 3

Any project, where Risk Level of at least one risk area falls into Moderate must be included in Priority 3. The non inclusion of these projects may affect reliability of assets; as well it may affect operating efficiency and compliance.

Priority 4

Any project, where Risk Level of at least one risk area falls into Low must be included in Priority 4. The non inclusion of these projects may affect opportunity for overall company risk reduction and operating efficiencies.

5. Budget Submission

The Asset Manager will compile all of the projects in their groups by Priorities, with business justification, risk analysis and budget cost (+/-30%). The list will be presented to APA Management and/or Asset Owner for their determination of which projects to be included into the budgets.

The final approval will reflect availability of capital, Owners strategic objective and in particular their appetite for risk.