

**THE REGULATION  
ON INVESTMENT ACTIVITY  
OF IDGC OF CENTRE  
IN A NEW EDITION**

**PS 11/02-02/2012**

Moscow

### Data on the document

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## Glossary

**The Business plan of the investment project** – the document prepared by results of study of the investment project, containing structured information on the project, the description of practical actions on realisation of investments, including the schedule of realisation of the project, the justification of economic feasibility, volume and terms of realisation of capital investments, a financial model.

**The project internal return rate (IRR)** – is equal to the discount rate at which total incomes are equal to expenses. The internal return rate corresponds to the discount rate at which net present value is equal to zero.

**Investments** – a set of long-term expenses of financial, labour, material resources for the purpose of increase in savings and profit making.

**Investment activity** – making investments and realisation of practical actions with a view of profit making and (or) achievement of other positive effect.

**The investment program** – a set of investment projects, their basic characteristics and financing volume, constituted for one year (short-term) within the limits of the period of tariff regulation and for not less than five years (long-term), formed on the basis of normative documents and confirmed according to the legislation of the Russian Federation. The short-term and long-term investment program of the Company includes the investment projects for which proving materials have been prepared, considered and agreed according to requirements of this Regulation.

**Investment resources** – money funds, securities, other property, including property rights, other rights invested in facilities of enterprise and other activity with a view of profit making and achievement of other useful effect

**The investment project** – a set of agreed actions on realisation of the investments having the justification of economic, and/or technical, and/or social expediency, volume and terms of realisation of the long-term investments, including the design and estimate documentation developed according to acting standards; for projects on consolidation of electric grid assets the report of the appraiser is used.

**Financing sources** – means and/or resources used for achievement of the planned purposes of the Company. Own and external sources comprise sources of financing of the investment program of the Company.

**The project team** – a group of employees of the Company, directly working over realisation of the project and is subordinate to the project leader. The project team is created for project realisation.

**Not electric grid facilities** – property facilities, used by the Company at realisation of the activity, not concerning to electric grid (constructions, intangible assets etc.).

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**Company** – IDGC of Centre, JSC.

**The benefit/expense relation** – ratio from division of the discounted flow of benefits by the discounted flow of costs, is used for an illustration of as far as possible increase in costs without transformation of the project into economically unattractive enterprise, and for a project risk assessment.

**Performance indicators** – the estimate criteria expressed in objective indicators of development of the company, used at realisation of investment activity and decision making about expediency (inexpediency) of investing means.

**Project management** – technology of management in which course set tasks are achieved at balancing between amount of work, cost, resources, time, quality and risks within the limits of the investment project.

**Working group** – a group of specialists managing realisation of a portfolio of investment projects that reports to the Managing Committee. The Working group's competence include: the coordination with the Managing Committee of planned changes during projects; the control of a course of realisation of investment projects, on the basis of the reporting of Project Leaders and the analysis of time schedules; origin of deviations, if they are not above planned indicators under the given projects.

**The project leader** – an employee of the Company, appointed by General Director of the Company, – the person responsible for realisation of the project in the Company. The project leader bears responsibility to follow deadlines and project costs, and also conformity of realisation of the project to the technical and other characteristics confirmed in the design and estimate documentation.

**The time of recovery of outlay** – duration of the least period after which the accrued net profit becomes, and remains further, non-negative. At calculation of the discounted time of recovery of outlay the discounted accrued monetary flow is considered. At calculations of time of recovery of outlay the construction term, starting-up and adjustment works and operation period is considered.

**Scenary conditions** – an organizational-administrative document of the Company according to which provisions the investment program of the Company is formed, including:

- the list of requirements to indicators and principles of forming of the investment program;
- the list of requirements and criteria to parametres and a set of investment projects;
- the basic macroeconomic and internal indicators used by the Company for carrying out of calculations at forming of the investment program.

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Scenary conditions are approved annually by the Board of Directors of the Company till the moment of the beginning of forming of the investment program of a following period and are obligatory for execution at forming of investment programs.

**Grid connection** – a complex of activities providing in aggregate actual connection of power installations of an applicant to electric grid facilities of the grid organisation.

**Title** – an element of the Investment program of the Company, corresponding to a construction title (to the normative document in which for concrete construction the following is established (capital construction project): the name, site and subordination of construction; its industry reference; character of construction; construction terms; designed capacity; budget cost; the task on commissioning of capacities and fixed capital (fixed industrial and non-productive assets); volume of capital investments and civil and erection works, and also construction in progress volume).

**Managing Committee** – a body whose competence is to decide on the key questions connected with realisation of projects on which project Charters are confirmed: change of terms of accomplishment, costs of projects, modification at realisation in technical decisions and other characteristics of the projects which are distinct from confirmed in the design and estimate documentation and other reasons, resulting in essential deviations during realisation of projects.

**The project charter** – a document regulating a project management in the Company. The project charter is developed by the Project leader and a project team. The project charter can be developed only under the projects included in the approved according to the established order investment program.

The project charter should contain: the order on project opening; the purposes, the justification, resources, including cost and the schedule of realisation of the project; management structure of the project – roles and responsibility of participants of the project team distribution; the technical specifications to the Project leader etc.

**Functional management** – management of investment projects and programs during which each functional manager performs the functions fixed by internal normative documents and organizational structure of the Company.

**Net present value (NPV)** – net present value of cost, –is equal to a difference between current value of a flow of the future incomes and current value of the future costs for realisation, operation and maintenance of the project throughout all life cycle of the project.

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**Electric grid facilities** – power lines, transformer and other substations, distribution points and other equipment intended for provision of electric connections and realisation of transmission of electric energy.

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**Used abbreviations:**

**CEO** – General Director

**The town-planning code** - the Town-planning code of the Russian Federation dated 22.12.2004 № 190-FZ

**Investment Development Program** – Investment Development Program of the Company

**Ministry of Energy of the the Russian Federation** – the Department of Energy of the Russian Federation

**Property, Plant and Equipment** – Fixed assets

**EAD** – Design and survey work

**Design and estimate documentation** – Design-budget documentation

**DEN** – Distribution Zone

**Board of Directors** – the Board of Directors

**Construction and installation work** – Civil and erection works

**The subject of the Russian Federation** – authorised bodies of the executive authority of the subject of the Russian Federation according to the governmental order of the Russian Federation dated 01.12.2009 № 977 «About investment programs of subjects of electric power industry»

**Grid connection** – Grid connection

**Retooling and modernization** – Modernisation and reconstruction

**FZ** – Federal act

**FGC** – Federal Grid Company of Unified Energy System

**E/E** – Electric energy

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# 1. General provisions

## 1.1. Purpose

This Regulation on investment activity of IDGC of Centre, JSC (hereinafter - the Regulation) is the main internal document of the Company, regulating management of the Company's investment activity, establishing bases of the organisation and functioning of a management system for investment activity.

This document determines the following substantive provisions of a management system for the Company's investment activity:

- Objectives and tasks of investment activity;
- Role of investment activity in the management system of the Company;
- Main principles of investment activity;
- Setup of projects and participants of investment activity;
- Main management processes for investment activity;
- Main requirements and acceptance criteria of decisions in managerial process for investment activity.

## 1.2. Range of application

This Regulation is the document, obligatory for execution by all participants of investment process of the Company (including for branches of the Company).

The Regulation establishes the key rules and principles, and also sequence of actions at:

- 1) initiation of investment projects;
- 2) forming a long-term (not less than 5 years) and short-term (for 1 year) within the limits of the period of tariff regulation investment program;
- 3) adjustment of the investment program;
- 4) coordination and monitoring of execution of the investment program;
- 5) forming of the reporting and analysis of execution of the investment program.

This Regulation does not regulate process of forming of the business plan of the Company.

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### 1.3. Normative acts on investment activity

Investment activity of the Company is implemented according to the current legislation of the Russian Federation and local normative acts of the Company.

#### *External normative documents*

<b>Document</b>	<b>Reference to the confirming / administrative document</b>								
<b>Federal legislation of the Russian Federation</b>									
Federal act №35-FZ «About electric power industry»	Federal law dated 26.03.2003 № 35-FZ								
Federal act №39-FZ «About investment activity in the Russian Federation performed in the form of capital investments»	Federal law dated 25.02.1999 № 39-FZ								
Federal act «About power savings and about increase of power efficiency about modification of separate legal acts of the Russian Federation»	Federal law dated 23.11.2009 № 261-FZ								
Governmental order of the Russian Federation «About pricing in the field of regulated prices (tariffs) in electric power industry»	Governmental order of the Russian Federation dated 29.12.2011 № 1178								
Governmental order of the Russian Federation «About schemes and programs of perspective development of electric power industry»	Governmental order of the Russian Federation dated 17.10.2009 № 823								
Governmental order of the Russian Federation «About the approval of Rules of non-discriminatory access to services in transmission of electric energy and rendering of these services, Rules of non-discriminatory access to services in operation and dispatching management in electric power industry and rendering of these services, Rules of non-discriminatory access to services of the manager of trading system of the wholesale market and rendering of these services and Rules of grid connection of power installations of consumers of electric energy, electric energy generating facilities, and also electric grid facilities belonging to grid organisations and other persons, to electric networks»	Governmental order of the Russian Federation dated 27.12.2004 № 861								
Governmental order of the Russian Federation «About investment programs of subjects of electric power industry»	Governmental order of the Russian Federation dated 01.12.2009 № 977								
Governmental order of the Russian Federation «About the approval of rules of forming and realisation of the federal targeted investment program»	Governmental order of the Russian Federation dated 13.09.2010 № 716								
Governmental order of the Russian Federation «About the order of carrying out of check of investment projects about efficiency of use of means of the federal budget directed on capital investments»	Governmental order of the Russian Federation dated 12.08.2008 № 590								
Governmental order of the Russian Federation «About the order of drawing up of the project of the federal budget and projects of budgets of the state off-budget funds of the	Governmental order of the Russian Federation dated 29.12.2007 № 1010								
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<b>Document</b>	<b>Reference to the confirming / administrative document</b>
Russian Federation for the next financial and planned period»	
Order of Ministry of Energy of Russia «About the approval of the form of the investment program of subjects of electric power industry in the authorised capital of which the state participates, and the grid organisations»	The order of Ministry of Energy of Russia dated 24.03.2010 № 114
Order of Ministry of Energy of Russia «About the approval of the form of the certificate of the investment project given for carrying out of check of investment projects about efficiency of use of means of the federal budget directed on capital investments»	The order of Ministry of Energy of Russia dated 13.10.2008 № 328
Order of Ministry of Energy of Russia «About the approval of a technique of a performance evaluation of use of means of the federal budget directed on capital investments»	The order of Ministry of Energy of Russia dated 24.02.2009 № 58
Order of Federal Tariff Service of Russia «About the approval of Methodical instructions on adjustment of tariffs with application of a method of return on invested capital»	Order of Federal Tariff Service of Russia dated 30.03.2012 № 228-e

**Internal local documents**

<b>Document<sup>1</sup></b>	<b>Reference to the confirming / administrative document</b>
<b>Local documents of the Company</b>	
Strategy of development of IDGC of Centre	Decision of the Board of Directors of IDGC of Centre dated 15.05.2012 (Minutes dated 18.05.2012 № 11/12)
The Regulation about the Commission on investments of IDGC of Centre	Order of IDGC of Centre dated 30.01.2013 № 30-CA
Order of IDGC of Centre «About the approval of the Regulation in distribution of powers»	Order of IDGC of Centre dated 14.05.2010 № 128a-CA
Regulations of forming, adjustment of the investment program and reporting preparation about its execution in IDGC of Centre	Decision of the Board of Directors of IDGC of Centre dated 15.11.2011 (Minutes dated 16.11.2011 № 24/11)
Scenary conditions of forming of investment program of IDGC of Centre	Minutes of session of the Board of Directors of IDGC of Centre dated № _____
Criteria of allocation of the major investment projects of capital construction of IDGC of Centre	Order of IDGC of Centre dated 29.01.2013 № 26-CA
Sample forms of drafts of contracts	Order of IDGC of Centre

<sup>1</sup> The corresponding internal document of the Company approved by management bodies of the Company is indicated

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Document <sup>1</sup>	Reference to the confirming / administrative document
	dated 21.02.2012 № 67-CA
Sample technical specifications	Order of IDGC of Centre dated 14.12.2012 № 369-CA
The program «Implementation of the construction management system for the major investment projects of IDGC of Centre (Regulations)	Order of IDGC of Centre dated 14.11.2011 № 320-CA
Regulations on the organisation of construction, modernisation and reconstruction of electric grid facilities	Order of IDGC of Centre dated 18.01.2013 № 8-CA
Cost efficiency calculation procedure on objects of the investment program of IDGC of Centre	Order of IDGC of Centre dated 30.01.2013 № 32-CA
The collection of the integrated cost indexes of construction (reconstruction) of substations and power lines for needs of IDGC of Centre	Order of IDGC of Centre dated 30.01.2013 № 31-CA

#### 1.4. Modification

Changes in this Regulation are made in connection with origin of contradictions between this Regulation and other constitutive documents:

- The legislation of the Russian Federation in the field of regulation of investment activity;
- The governmental orders of the Russian Federation in the field of regulation of investment activity;
- Requirements of the industry ministries and departments of the Russian Federation in the field of regulation of investment activity;
- System of standard regulation of rules of accounting in the field of investment activity;
- Local normative documents of the Company, including at completion or development of organizational and methodical documents in the field of the Company's investment activity.

Besides, modifications in this Regulation are made at change of:

- Setup of projects of the process of the Company's investment activity;
- List of participants of the process of the Company's investment activity;
- List and structure of planned and reporting indicators and forms of the Company's investment activity.

All participants of the Company's investment activity can be initiators of entering of specifications, changes and additions.

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## 2. The description of investment activity

### 2.1. The objectives and tasks of investment activity

Investment activity of the Company is the tool of strategy implementation and strategic targets of the Company that makes up its main objective – optimum, timely and most effective fulfilment of strategic targets of the Company.

Development of interregional distribution electric grids, as part of the electric power complex of the Russian Federation, provision of reliable and uninterrupted delivery of electric energy to consumers, economically steady and profitable functioning of the Company are allocated as main objectives of the Company's investment activity.

According to the Development Strategy of the Company the objectives and tasks of the investment activity are determined by the following goals of the Company:

- increase of a level of quality and reliability of electricity supply to end consumers;
- preserving of tariff sources of investments into renovation and grid development;
- increase of operational and investment efficiency;
- growth of the company accompanied by creation of additional value both in electric power industry, and in new markets;
- improvement of interaction with consumers, the society and investors.

According to the designated objectives of the Company the tasks of the Company's investment activity are:

- Renovation of the equipment necessary for sufficient, reliable, uninterrupted power supply of consumers;
- Modernisation and renovation of fixed assets;
- Increase of safety of work of the equipment, including ecological;
- Commissioning of new capacities in case of need to cover load deficit or necessity of creation of a reserve of capacity;
- Decrease in production costs, including at the expense of increase of overall performance of the equipment, application of more economic technical solutions, reduction of losses;
- Provision of grid connection in full;
- Increase of overall performance of the equipment;

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- Capitalisation increase of the Company in long-term prospect;
- Execution of socially focused projects;
- Consolidation of electric grid assets;
- Achievement of high loading of commissioned capacities and performance of stage-by-stage construction;
- Decrease in specific cost of construction for the account of implementation of typified design (technical) solutions, increase of transparency of specific costs;
- Improvement of quality of realisation of investment projects;
- other tasks.

Long-term investment programs of the Company are developed for goal achievement and accomplishment of tasks in which the basic perspective directions of its development are fixed. Development of long-term investment programs is performed according to developed strategy of the Company's development and regional features of functioning of distribution electric networks.

The investment program is a part of system of business planning and budgeting of the Company. At drawing up of investment programs influence of their realisation on financial and economic activity of the Company as a whole is considered. As a part of the general budget of the Company the budget on investment activity is allocated. Realisation of the investment program of the Company should provide accomplishment of established performance indicators of the Company's investment activity.

## **2.2. Principles of conducting investment activity**

This section determines the main principles which the Company's investment activity is based on.

### **Principle of conformity to strategic priorities of the Company**

Developed investment programs, and also investment projects included in the investment program, should correspond to strategic priorities of the Company. Strategic priorities are determined by the Board of Directors of the Company.

### **Principle of personification of responsibility for investment decisions at each stage of process of investment planning and control**

Process of investment planning and control provides for assigning a responsible person for each development cycle and realisation of the project and tasks solved as a result of its realisation, and also possibility of a quality evaluation of taken decisions by means of monitoring of actual indicators of realised investments.

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### **Principle of conformity to the technical policy of the Company**

The investment program of the Company should correspond to the technical policy at realisation of projects and programs on application and implementation of new equipment and materials taking into account useful lives, reliability, and also cost efficiency of their use.

### **Principle of accounting of the Company's financial condition**

The investment program of the Company should consider the current and future financial condition of the Company, including possibility of attraction of additional financial resources and change of the Company's financial condition as a result of realisation of the formed Investment Development Program.

### **Timeliness principle**

Investment projects and programs of the Company should be performed in strict compliance with the planned and confirmed terms.

### **Cost efficiency principle**

The investment projects, implemented by the Company, should have the maximum cost efficiency, if it does not contradict requirements of uninterrupted, reliable functioning of the electric grid complex, and also the social tasks set.

### **Principle of compliance with law and local normative acts**

Processes of forming, adjustment of the investment program of the Company, implementation of the investment program of the Company and reporting forming about its execution should conform to requirements of the current legislation of the Russian Federation and local normative acts of the Company.

Requirements and norms contained in the legislation of the Russian Federation (including in the field of ecological safety), industry and local normative acts should be observed at realisation of the investment program.

## **2.3. The main provisions and features of investment activity**

### *2.3.1. Investment activity*

- Conducting investment activity is performed according to accepted by the Board of Directors of the Company long-term strategy, policies, and targeted programs.

- Processes of planning and execution of the investment program are organised according to requirements of the current legislation of the Russian Federation at the federal and regional level.

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- The Company creates the investment policy proceeding from cost efficiency and expediency principles. When the Company provides necessary level of reliability and uninterrupted operation of work of the equipment or bears obligations on realisation of socially significant investments which do not meet the requirements of cost efficiency of investments, it is necessary to minimise the losses connected with accomplishment of given obligations.

- The Company reports to the Board of Directors of the Company for planning and execution of the investment program in detailed elaboration to the major projects, programs and subprograms (see paragraph 5.6 for details), broken down by the subjects of the Russian Federation and as a whole for the Company.

- Transition is performed to use technology of project management at realisation of the major investment projects, and also other significant investment projects for which the decision is accepted on their transfer to the setup of projects of project management.

- Modern information technologies are implemented providing high controllability over work on investment activity.

### *2.3.2. Planning of the investment program*

Principles of planning of the investment program determine the main approaches to the formation process, setup and structure of the investment program:

- Long-term (not less than 5 years) (can be also a longer period taking into account the period of tariff regulation - hereinafter not less than 5 years) and short-term (for 1 year) investment program within the limits of the period of tariff regulation is formed proceeding from scenary conditions of development of the electric power industry, confirmed by the Ministry of Energy of the Russian Federation, scenary operating conditions of economy of the Russian Federation and key parametres of its social and economic development for the base and planned periods, annually confirmed by the Ministry of economic development of the Russian Federation, and scenary conditions of forming of the investment programs developed within the limits of preparation of the decision for the Board of Directors of the Company.

- The investment program of the Company is financed at the expense of own (tariff) and external (borrowed) sources.

- According to the current legislation investment programs are approved by subjects of the Russian Federation or the Ministry of Energy of the Russian Federation.

- Necessary condition of development of investment programs of the territorial grid organisations of subjects of the Russian Federation is availability of

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the confirmed when due hereunder scheme and development program of electric power industry of the subject of the Russian Federation.

- At planning of the investment program it is necessary to carry out the comparative analysis of specific costs for the purpose of their decrease.

- The setup of investment projects, included in investment programs, should be determined taking into account implementation of a system of categorisation, ranging and selection of projects on the basis of achieved effect and justification of expediency of realisation, depending on the size and complexity of projects.

- Investment programs within the limits of the period of tariff regulation broken down by subjects of the Russian Federation and as a whole, the subject of electric power industry should meet the requirements of cost efficiency and expediency.

- Following the results of the last year long-term investment programs are adjusted and formed for the next long-term period proceeding from development priorities of the Company, scenary conditions of forming of investment programs and in strict compliance with long-term plans and forecasts of development.

- The structure of investment programs is determined proceeding from necessary level of detailed elaboration of the information for justification in regulation authorities (subjects of the Russian Federation, Ministry of Energy of the Russian Federation), for management of the Company.

- At planning of projects terms of design and exploration work are set not less than one year prior to term of the beginning of civil and erection works, with an exception of: objects on which development of the design and estimate documentation is not required; works on grid connection for preferential categories of applicants; projects for which separate purchasing procedures on design and survey work are not carried out.

### 2.3.3. Execution of the investment program

- For the purpose of reducing of costs modern technologies, including competitive procedures, centralised purchases, forming of principles of a system of long-term contracts (agreements) with contractors at the Company's level, enhancement of standard contracts with contractors and others are used.

- In course of execution of the investment program strict interaction with procedures of a choice of service and equipment providers (tender documentation preparation) that warrants qualitative development of the design and estimate documentation, adherence to deadlines of deliveries and allows to observe schedules of civil and erection works.

- For provision of timeliness of work realisation of projects is made under in advance prepared and agreed time schedules.

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- The system of interaction with contractors of the Company is based on use of uniform technologies of management of projects and works in a uniform information field.
- For the purpose of timely revealing of deviations on quality and scope of works the Company performs operative control of work of contractors.
- The Company constantly performs monitoring of actual indicators of execution of projects, and also forms the periodic reporting for regulation authorities and within the preparation of sessions of the Board of Directors of the Company.
- At infringement of the agreed time schedules, schedules of civil and erection works, terms of deliveries, other contract provisions by contractors, service and equipment providers, the Company should perform claim-related work according to the current legislation and conditions of the concluded contracts.
- The beginning of civil and erection works is allowed only in the presence of the design and estimate documentation developed, agreed and confirmed according to the current legislation, with an exception of: objects on which development of the design and estimate documentation is not required; works on grid connection for preferential categories of applicants; projects for which separate purchasing procedures on design and survey work are not carried out.
- The beginning of civil and erection works is allowed only in the presence of arranged according to requirements of the Town-planning code Initial permissive documentation.

### **3. Participants of investment activity of the Company**

#### **3.1. Structure of participants**

The structure of participants of investment activity represents a matrix consisting of management levels (the executive office of the Company, branch) and functional responsible persons at each of the given levels (see Appendix 1).

Each level of management is presented by the following participants of investment activity: line managers (General Director of the Company, Director of a branch) and responsible, carrying out separate functions (see paragraph 3.2) within the investment activity. The latter refers to:

- Responsible for the technical part (electric grid facilities);
- Responsible for perspective development and grid connection (electric grid facilities);
- Responsible for not electric grid facilities;

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- Responsible for capital construction;
- Responsible for investment planning and reporting;
- Responsible for the financial and economic part;
- Responsible for consolidation of electric grid assets;
- Responsible for pricing at a stage of planning of investment projects;
- Responsible for pricing at a stage of realisation of investment projects;
- Responsible for cost efficiency calculation;
- Responsible for calculation of power efficiency;
- Responsible for the approval of the investment program with an authorised body of executive power in accordance with procedures and requirements of Governmental Order of the Russian Federation dated 01.12.2009 № 977.

According to the confirmed organizational structure at each level of management the roles of the functional responsible persons can be performed by various structural divisions. Conformity of the functional responsible persons and structural divisions is established by internal normative acts and organizational structure of the Company.

### 3.2. Functions and responsibility of participants

Within the investment activity functional responsible persons have their functions at all management levels.

Responsibility for preparation both timely and qualitative execution of investment programs of the Company, branch, targeted and effective expenditure of investment funds for financing of the investment program, preparation of the reliable reporting about execution of the investment program is assigned personally to **the head of a corresponding management level** (General Director of the Company, Director of a branch).

Development of the electric grid complex and monitoring of its condition refer to the functions of the **Responsible for the technical part (electric grid facilities)**. Within the given functions responsible for the technical part initiate investment projects for electric grid facilities (bear responsibility for expediency of inclusion of electric grid facilities in the investment program), and also form the list of reasonable for realisation investment projects in a following planned period. Thus they bear responsibility for the technical justification, availability of power efficiency and expediency of realisation of investment projects with indication of look-ahead sizes of technical-and-economic indices and quantity indicators

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characterising result of the achieved objective before realisation of investment projects and after.

At execution of the investment program the Responsible for the technical part are responsible for taken technical solutions at realisation of electric grid facilities both at inclusion in the investment program, and in the course of realisation. Thus they prepare technical specifications under the projects initiated by them for inclusion in the investment program and bear responsibility for timeliness of submitting and quality of the indicated technical specifications.

Besides, the Responsible for the technical part are performers for the electric grid facilities which do not refer to the functions of the Responsible for capital construction (facilities, entering into the program of perspective development of electric power metering systems in the retail market of the electric power, into the program on AMI of the wholesale market etc.).

The Responsible for the technical part performs acceptance of results of works with contractors on those facilities for which they are performers. On those facilities, for which the performer is the Responsible for capital construction, the Responsible for the technical part participates in acceptance of key stages of works with contractors, and also performs commissioning of a facility. At use of project management differentiation of functions and responsibility on acceptance of works in the course of realisation of the project and on its completion is determined by the project Charter.

Development of the electric grid complex and provision of grid connection of consumers refer to the functions of the **Responsible for perspective development and grid connection**. Within the given functions responsible persons for perspective development and grid connection initiate investment projects on the electric grid facilities necessary for grid connection of applicants (bear responsibility for expediency of inclusion of electric grid facilities for realisation of grid connection in the investment program), and also, on the basis of the confirmed schemes of perspective development of electric networks and programs of territorial development of electric power industry of a region, form the list of reasonable for realisation investment projects in a following planned period. Thus they bear responsibility for the justification of the data, availability of power efficiency, and expediency of realisation of investment projects (technical, from the point of view of consumption forecasts etc.) with indication of look-ahead sizes of technical-and-economic indices and quantity indicators characterising result of the achieved objective before realisation of investment projects and after.

At execution of the investment program the Responsible for perspective development and grid connection are responsible for issuing specifications on which basis technical solutions are formed at realisation of electric grid facilities

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for grid connection obligation fulfilment and realisation of perspective development both at inclusion of electric grid facilities in the investment program, and in the course of their realisation. Thus they prepare technical specifications under the projects initiated by them and bear responsibility for timeliness of submitting and quality of the indicated technical specifications. Besides, the Responsible for perspective development and grid connection participates in acceptance of key stages of works with contractors and commissioning of a facility. At use of project management differentiation of functions and responsibility on acceptance of works in the course of realisation of the project and after its completion is determined by the project Charter.

Formation and execution of the investment program refer to the functions of the **Responsible for not electric grid facilities** regarding not electric grid facilities. Within the given functions Responsible persons for not electric grid facilities initiate investment not electric grid projects, and also form the list of reasonable for realisation investment not electric grid projects in a following planned period. Thus they bear responsibility for the justification of the data, availability of power efficiency and expediency of realisation of initiated not electric grid projects (technical, economic etc.) with indication of look-ahead sizes of technical-and-economic indices and quantity indicators characterising result of the achieved objective before realisation of investment projects and after.

At execution of the investment program the Responsible for not electric grid facilities are responsible for taken technical solutions at realisation of not electric grid facilities both at inclusion in the investment program, and in the course of its realisation. Thus they prepare technical specifications under the projects initiated by them for inclusion in the investment program and bear responsibility for timeliness of submitting and quality of the indicated technical specifications.

Besides, the Responsible for not electric grid facilities are performers for not electric grid facilities which do not refer to the functions of the Responsible for capital construction (automation, acquisition of not electric grid facilities etc.).

The Responsible for not electric grid facilities performs acceptance of results of works with contractors on those facilities for which they are performers. On those facilities, for which the performer is the Responsible for capital construction, the Responsible for not electric grid facilities participates in acceptance of key stages of works with contractors, and also performs commissioning of a facility. At use of project management differentiation of functions and responsibility on acceptance of works in the course of realisation of the project and on its completion is determined by the project Charter.

**The Responsible for capital construction** has the functions of determination of terms of the realisation offered by initiators of investment projects, and provision

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of no cost excess, conformity to technical characteristics, in the course of the realisation, confirmed in the design and estimate documentation, timely reception of the Initial permissive documentation and the design and estimate documentation, preparation of the purchasing documentation on construction and installation work, design and survey work, commodities and materials, equipment. The Responsible for capital construction has also the functions to organize a system of execution of the investment program regarding capital construction. At execution of the investment program the person bears responsibility for timely execution of stages of investment projects and projects as a whole, targeted expenditure of investment resources on the projects included in the investment program regarding capital construction (is the performer under the given projects), confirmed according to the current legislation.

The Responsible for capital construction performs acceptance with contractors of results of works (intermediate and upon completion of works under the project) on objects of capital construction, and also upon completion of works under the project performs delivery of the complete facility to the Responsible for the technical part and Responsible for not electric grid facilities. At use of project management differentiation of functions and responsibility on acceptance of works in the course of realisation of the project and on its completion is determined by the project Charter.

At realisation of the investment program the Responsible for capital construction should not start the beginning of construction/reconstruction without availability of all allowing and confirmed design and estimate documentation (if necessary).

Besides, at forming of reports on execution of the investment program regarding capital construction, the person bears responsibility for completeness, correctness and timeliness of the given reporting data (process of forming of the reporting and formats are determined by Regulations of forming, adjustment of the investment program and reporting preparation about its execution in the Company and acting normative documents, including orders of the Ministry of Energy of the Russian Federation).

**The Responsible for investment planning and reporting** is the organizer and coordinator of processes of forming and adjustment of investment programs, monitoring of execution of investment programs, and also the organisation of forming of reports on their execution. Within the planning process the Responsible for investment planning and reporting together with the Responsible for the financial and economic part determines volume and sources of financing of the investment program at each level of management broken down by subjects of the Russian Federation and as a whole for the Company, supervises observance of scenary conditions of forming of the investment program, coordinates investment

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programs of subordinate levels of management and forms the consolidated investment program broken down by investment projects at the level of management (branch, the Company) broken down by subjects of the Russian Federation and as a whole for the Company. In the course of realisation of the investment program he performs monitoring of its execution and organizes reporting formation about execution of the investment program broken down by investment projects, broken down by subjects of the Russian Federation and as a whole for the Company. Besides, the Responsible for investment planning and reporting in the course of the coordination of investment programs performs consultations with subjects of the Russian Federation and Ministry of Energy of the Russian Federation.

**The Responsible for the financial and economic part** has the functions of formation, coordination and adjustment (if necessary) of sources of financing of the investment program broken down by subjects of the Russian Federation and as a whole for the Company. Thus the person bears responsibility for equation of sources of financing of the investment program.

At execution of the investment program the Responsible for the financial and economic part supervises observance of use of the confirmed sources of financing and if necessary together with the Responsible for investment planning and reporting performs their adjustment.

Realisation of activities for consolidation of electric grid assets refers to the functions of the **Responsible for consolidation of electric grid assets**. Within the given functions the Responsible for consolidation of electric grid assets initiates investment projects on consolidation of electric grid assets, and also forms the list of reasonable for realisation investment projects on consolidation in a following planned period. Thus the person bears responsibility for the justification of the data and expediency of realisation of the initiated investment projects on consolidation (technical, economic etc.) with indication of look-ahead sizes of technical-and-economic indices and quantity indicators characterising result of the achieved objective before realisation of investment projects and after.

At execution of the investment program the Responsible for consolidation of electric grid assets bears responsibility for realisation of activities for consolidation of the electric grid assets included in the investment program within the limits of fixed terms, costs, technical and other requirements (prepares the necessary documentation on acquired assets, organizes participation of the Company in purchasing procedures etc.). At use of project management differentiation of functions and responsibility on realisation of the project and after its completion is determined by the project Charter.

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Determination of planned cost of capital construction of investment projects refers to the functions of the **Responsible for pricing at a stage of planning of investment projects** in the current and look-ahead prices, drawing up of the integrated budget calculations, reports of costs at a stage of pre-project studies according to effective standards and rules.

At forming of the investment program of the Company the Responsible for pricing at a stage of planning of investment projects bears responsibility for observance of principles of determination of planned cost of capital construction of investment projects and absence of the overestimated integrated cost indexes of construction/reconstruction of the investment projects included in the investment program.

**The Responsible for pricing at a stage of realisation of investment projects** has the functions of consideration, carrying out of internal examination before direction for external examination and coordination of the design and estimate documentation developed by the design organisations, control of cost indexes of under construction/reconstructed facilities for the purpose of non-admission of unreasonable growth of costs, realisation of the activities directed on provision of conformity of the cost of implemented investment projects with the confirmed design and estimate documentation.

At realisation of the investment program of the Company the Responsible for pricing at a stage of realisation of investment projects bears responsibility for unreasonable rise in price of investment projects without entering when due hereunder changes in the existing investment program.

**The Responsible for cost efficiency calculation** has the functions of realisation of activities for calculation of cost efficiency of investment projects, programs, targeted programs, initiated for inclusion in the investment program of the Company, according to methodical recommendations about calculation of cost efficiency of investment projects and programs, targeted programs.

At carrying out of calculations of cost efficiency of investment projects he bears responsibility for correctness and timeliness of represented calculations. Responsibility for reliability and timeliness of the represented initial data, used in calculations of cost efficiency, is born by operating divisions of the Company, in whose area of responsibility according to functional distribution of obligations in the Company there is information necessary to perform calculations of cost efficiency of investment projects.

Realisation of activities for calculation of power efficiency of investment projects, programs, targeted programs initiated for inclusion in the investment program of

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the Company refers to the functions of the **Responsible for calculation of power efficiency**.

At carrying out of estimation of power efficiency of investment projects he bears responsibility for correctness and timeliness of represented calculations. Responsibility for reliability and timeliness of the represented initial data, used in calculations of power efficiency, is born by operating divisions of the Company, in whose area of responsibility according to functional distribution of obligations in the Company there is information necessary to perform calculations of power efficiency of investment projects.

The functions of the **Responsible for the approval of the investment program with an authorised body of executive power in accordance with procedures and requirements of Governmental Order of the Russian Federation dated 01.12.2009 № 977** (hereinafter - Responsible for approval of Investment Development Program) include the organisation of the timely coordination and approval of the investment program of the Company and investment programs of the Company's branches with authorised bodies of executive power. Thus he should observe the requirements, established by Governmental Order of the Russian Federation dated 01.12.2009 № 977, in terms of time frames, formats etc.

In more details the functions of the participants of investment activity at all levels of management (the Company, a branch) are presented in Appendix 2 to this Regulation.

### **3.3. Participation of shareholders in management of the Company's investment activity**

From shareholders of the Company the control over investment activity is performed by corporate management methods. In particular, by means of participation of their representatives at Shareholders' general meeting (in the Board of Directors of the Company and/or in the work of the Audit Commission) and decision making on the questions connected with the Company's investment activity.

The competence and functions of management and control bodies of the Company (Shareholders' general meeting, Board of Directors, chief executive officer, collegial executive body, Audit Commission) within the investment activity are determined by the Articles of Association of IDGC of Centre and other internal normative documents of the Company.

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#### 4. Objects of management and accounting elements, structure of the investment program

The investment program is the main management tool for the Company's investment activity. Investment activity of the Company is subject to adjustment from the Ministry of Energy of the Russian Federation and subjects of the Russian Federation. In this connection some levels of management (formation, coordination, approval and control) of the investment program of the Company are allocated:

- Internal (the Company, including the executive office of the Company, branches, affiliated and dependent companies);
- External (shareholders of the Company, Ministry of Energy of the Russian Federation, subjects of the Russian Federation and other external subjects).

Allocation of objects of management and accounting elements is made according to accounting of requirements of internal (the accepted rules of management and accounting in the Company) and external levels of management.

##### *Accounting elements*

For accounting of investment costs of the Company the concept "Title" (see the definition in the section "Glossary") is used. The title is a base element of the Investment program of the Company. In the given detailed elaboration there is a collection of costs on investment activity and data presentation to accounting.

##### *Investment projects*

An object of investment activity management at level of the Company is an investment project (see the definition in the section «Glossary»). The investment program of the Company consists of the list of investment projects on which the decision has been accepted on their realisation expediency (for more details see section 6.2). The investment project can consist of one or several Titles. The decision on consolidation of Titles in the investment project is accepted by specialists of the Company depending on:

- organisation of management of work performance;
- technological features of realisation of works at facilities;
- possibilities of division of results of works for one or several facilities;
- other factors,

apart from the case of availability of mixed physical parametres of the investment project (there are physical characteristics of capacity (MVA) and line facilities (km (Conductor or Cable)). In this case the investment project can combine some titles

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with different physical parameters (MVA and km), but thus forming of the investment program is performed with indication of the given titles under the general investment project in which the title data is combined.

A special case is conformity of one investment project to one Title.

Investment projects differ in size of capital investments (see Appendix 3), kinds of under construction and reconstruct facilities, social and political importance, availability of cost efficiency and other factors.

Formation and approval of a short-term (for 1 year) investment program within the limits of the program for tariff regulation period of the Company for internal control is performed in detailed elaboration to investment projects, irrespective of their importance and size of capital investments broken down by subjects of the Russian Federation and as a whole for the Company.

Formation of a long-term (not less than 5 years) investment program of the Company for internal control and for consideration by the Board of Directors of the Company is performed in detailed elaboration to investment projects under the following investment projects:

- the major projects;
- the projects included in the annual investment program.

Other projects can be combined in programs and subprograms and estimated on cumulative parameters.

For the coordination and approval of investment programs with authorised bodies of the executive authority or the Ministry of Energy of the Russian Federation the format of representation and approval of investment programs is established by acting standard administrative documents, including Governmental Orders of the Russian Federation, subjects of the Russian Federation and orders of the Ministry of Energy of the Russian Federation.

#### *Management of the major projects and programs*

For the purpose of improvement of quality of management by planning and realisation of the investment program of the Company the major investment projects are allocated in it. Other investment projects are combined in programs and subprograms. The control and management of investment projects with partial or complete financing for the account of means of the federal budget is performed separately under each project, with allocation of a group of projects in a separate subprogram of the investment program.

The allocation of projects, programs and subprograms solves the following tasks:

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- a. Implementation by the Company of technology of project management at capital construction. That means forming of a team of project leaders, training personnel skills of project management, development and accepting of necessary regulating documents, forming of corresponding relations with contractors.
- b. Differentiation of powers and responsibility between the Company and external regulatory organisations for decision making about inclusion and subsequent adjustment in programs of the final list of projects in the investment program of the Company. The Board of Directors of the Company performs the control over execution of the investment program broken down by investment projects of the first year, the major projects, programs and subprograms by consideration of the long-term investment program of the Company. At the control over execution of the annual investment program the Board of Directors of the Company performs consideration broken down by investment projects.

The investment program has the following structure:

1. The major projects
2. Groups of programs
  - 2.1. Programs of the Company
    - 2.1.1. Programs of the branches
    - 2.1.2. Subprograms of the Company

Allocation of the major projects is made according to the Order of allocation of objects of management, presented in Appendix 4 of this Regulation.

The list of Groups of programs and subprograms is invariable and approved within the framework of Appendix 4 of this Regulation.

Programs of the Company and its branches are a part of groups of programs and are allocated at level of management of the executive office of the Company and branches according to the Order of allocation of objects of management (see Appendix 4). Programs of the Company always have detailed elaboration to programs of branches. At the management organisation (appointment of heads of programs and distribution of powers and responsibility) the executive office of the Company and/or branches choose the following schemes of management of programs:

- Appointment of a specialist of the executive office of the Company as the head of the program of the Company. Thus breakdown of programs of the Company to programs of the branches is made for the purpose of reception

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of additional analytics used including for justification of the investment program with regulation authorities.

- Appointment of a specialist of the branch as the head of the program of the branch, without appointment of the head of the program of the Company. Thus the Program of the Company is the object of grouping of programs of the branches.
- Simultaneous appointment of heads of programs of the Company and branches with division of areas of responsibility and powers.
- Appointment of responsible persons for separate stages of realisation of programs (functional management). The organisation of works will be performed without use of technology of project management.

Thus, the major projects, programs and subprograms are objects of management at all levels of management – internal (the Company, branches) and external (shareholders of the Company, the subject of the Russian Federation, the Ministry of Energy of the Russian Federation).

General Director of the Company bears the responsibility for formation, timely execution, and approval of the investment program of the Company according to requirements and in the order established by the current legislation.

General Director of the Company bears the responsibility for object conformity of the implemented short-term and/or long-term investment program of the Company, approved by the subjects of the Russian Federation or the Ministry of Energy of the Russian Federation.

## 5. The Company’s investment activity management processes

### 5.1. Setup of management processes by investment activity

The investment activity management system represents a system of the interconnected processes which complex allows to implement tasks of management of the Company’s investment activity (see Appendix 5).

The investment activity management system consists of the following processes:

- 1) *Initiation of investment projects*. Provides forming of the list of investment projects, reasonable for realisation.
- 2) *Forming of the investment program* for the next planned period. Within the limits of the given process the choice of investment projects from the list of the investment projects, initiated within the limits of the previous process, and their

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inclusion in the investment program of the Company taking into account observance of scenary conditions of forming of investment programs is performed.

3) *Adjustment of the investment program.* It is performed in need of modification of the confirmed investment program.

4) *Coordination and monitoring of execution of the investment program.* Refers to the operational management aimed at timely accomplishment of the confirmed investment program. Tracking and timely reaction to negative events and tendencies arising in the course of realisation of the investment program of the Company refer to the tasks of monitoring of execution.

5) *Forming of the reporting and analysis of execution of the investment program.* It is a regular process by which results the decisions concerning both execution of the investment program, and necessity of its adjustment are made.

See subparagraphs 5.2 - 5.7 for the detailed description of the given processes and their rules and algorithms as well.

## 5.2. Process of initiation of investment projects

### 5.2.1. The events starting process of initiation of investment projects

Process of initiation of investment projects is started at origin of necessity and/or possibility of realisation of the investment project. The events starting process of initiation of investment projects include:

- The information on technical condition of electric grid facilities;
- Occurrence of a request or contract conclusion on grid connection;
- Occurrence of instructions of Rostehnadzor, organisations supervising fire safety for elimination;
- The approval of the scheme and development program of electric power industry of the subject of the Russian Federation;
- The approval of a new or changed existing scheme of development of electric networks of 35 kV and below;
- Receipt of the information on the confirmed investment program of FGC and generating companies;
- Agreement undertaking with regional authorities;
- The approval by the Board of Directors of the Company of targeted programs;
- Receipt of requirements of SO UES;
- Occurrence of possibility of consolidation of electric grid assets;

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- Other events.

#### 5.2.2. Sequence of actions after initiation of investment projects

At approach of one of the specified above events process of initiation of the investment project is launched. Result of the given process is the investment project, reasonable for realisation in the Company, having the corresponding justification and arranged in an appropriate way.

Process of initiation of investment projects consists of the following stages:

##### *1. Occurrence of necessity and/or possibility of realisation of the investment project.*

The given stage starts process of initiation of the investment project. The primary goal of the given stage – monitoring and timely reaction to the specified above event, the subsequent analysis of expediency of realisation of the investment project, determination of preliminary parameters of the investment project.

##### *2. Decision making about further review of realisation of the investment project.*

At the given stage primary selection of investment projects, more detailed study of its parameters is performed, technical assessment of possibility of its realisation is produced.

##### *3. Forming of proving materials.*

Proving materials of the investment project are formed by its initiator who can involve for this purpose other specialists of the Company. Calculation of cost efficiency of the investment project is performed by the Responsible for cost efficiency calculation. The initiator, and also the specialists of the Company involved by him bear responsibility for reliability of the information contained in the proving materials.

See section 5.2.3 for more details on the composition of the proving materials.

##### *4. Decision making about expediency of realisation of the investment project.*

At the given stage on the basis of the proving materials the decision on expediency of realisation of the investment project is made. The planned date of its beginning can be thus established. The final decision about realisation term is performed within the limits of process of forming of the investment program for the next planned period in which frameworks the most priority projects are selected out of all initiated ones taking into account observance of scenario conditions of forming of the investment program.

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### 5.2.3. *Requirements to the composition of the proving materials of the investment project*

Proving materials are formed under each investment project.

Depending on scale of investments the proving materials on them are arranged in the form of the business plan of the investment project and explanatory notes to it, the reduced business plan of the investment project and explanatory notes to it or the explanatory note and efficiency calculations. For carry-over facilities (realisation of the investment project or its financing began during the previous periods) the proving materials annually should be updated and brought into compliance with the requirements of this Regulation.

*The Business plan* of the investment project (see Appendices 6 and 7) is prepared under the major investment projects and targeted programs (criteria of reference of investment projects to the major projects are presented in Appendix 3).

*The reduced business plan* of the investment project (see Appendices 6 and 8) is prepared under investment projects and objects of investments concerning the category of average projects according to the classification, presented in Appendix 3.

*The explanatory note* (see Appendix 9) is prepared under the investment projects concerning the category of small projects according to the classification, presented in Appendix 3.

Proving materials under the investment projects which realisation is performed with use of means of the federal budget, are presented in addition in formats and according to the requirements established by Governmental Order of the Russian Federation from August, 12th, 2008 № 590.

### 5.2.4. *Estimation of cost efficiency of the investment project for the purpose of the analysis of expediency of its realisation*

At decision making about inclusion of the investment project in the investment program (expediency of realisation of the investment project) cost efficiency indicators are considered in all cases, except for the investment projects which realisation is performed with use of means of the federal budget where the additional estimation according to point 13 of section III of Governmental Order of the Russian Federation from August, 12th, 2008 № 590 is performed.

Thus cost efficiency indicators are:

- 1) Net cash flow;
- 2) Internal return rate;

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- 3) Time of recovery of outlay (simple and discounted);
- 4) Profit/Cost Ratio (in the availability of a profitable part).

The standard size of the specified indicators is established by the scenary conditions developed within the limits of preparation of the decision for the Board of Directors of the Company, and also additional requirements of the Company. The discount rate, used at calculation of the specified indicators, is established by scenary conditions.

Calculation of cost efficiency of the project is performed on the basis of methodical recommendations about calculation of cost efficiency of the investment project.

### **5.3. Process of forming a long-term (not less than 5 years) and short-term (for 1 year) investment program of the Company within the limits of the program for tariff regulation period**

#### *5.3.1. Setup of planned documents under the investment program of the Company*

The investment program of the Company consists of two main planned documents:

*1) The long-term investment program (not less than 5 years).*

Development of the long-term investment program is performed for the purpose of forming of events for achievement of long-term objectives of the Company (strategy).

*2) The short-term investment program (for 1 year) within the limits of the program for tariff regulation period.*

The short-term investment program is formed for the purpose of provision of accomplishment of the tasks established in the long-term plan, and represents the detailed action plan of the first year of the long-term plan.

Long-term and short-term investment programs of the Company are formed broken down by subjects of the Russian Federation and as a whole for the Company and consist of the complete set of the formats which composition is established by normative acts of the Russian Federation, and also the Regulations of forming, adjustment of the investment program and reporting preparation about its execution in the Company.

The short-term investment program is formed on the basis of the long-term investment program confirmed in the order established by the law within the limits of the period of tariff regulation.

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**5.3.2. Sequence of actions on forming the long-term (not less than 5 years) investment program of the Company**

Process of forming the long-term (not less than 5 years) investment program of the Company is annual and regulated by the Regulations of forming, adjustment of the investment program and reporting preparation about its execution in the Company (sequence of steps, terms, responsible persons). Terms of forming and preparation of materials for direction of offers on preparation and realisation of budget investments from the federal budget in capital construction projects are determined proceeding from the requirement of point 13 of section of II of Governmental Order of the Russian Federation from December, 29th, 2007 № 1010 and linked with the general process and terms of forming of the long-term investment program.

The given process consists of the following stages (see Appendix 10):

*1. Forming the long-term (not less than 5 years) investment program of the Company.*

Forming of the investment program of the Company is performed «from below upwards» according to the structure of participants of investment activity. At forming of the long-term investment program the Company is guided by scenary conditions and financing sources for the corresponding period of planning.

See section 5.3.5 for the requirements to forming of the investment program of the Company.

*2. The coordination of the long-term investment program of the Company within the limits of preparation of the decision for the Board of Directors of the Company.*

At the given stage the generated and agreed at the Company’s level long-term investment program is agreed within the limits of preparation of the decision for the Board of Directors of the Company.

*3. Review by the Board of Directors of the Company an item on an assignment to General Director of the Company to have the long-term investment program agreed upon (and/or approved) with the subject (s) the Russian Federation.*

At the given stage the Board of Directors of the Company considers the item on the assignment to General Director of the Company to have the long-term investment program agreed upon (and/or approved) with the subject (s) the Russian Federation.

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*4. Transfer of the long-term investment program to the subject (s) of the Russian Federation or Ministry of Energy of the Russian Federation.*

According to normative acts of the Russian Federation the Company is obliged to give the long-term investment program for the approval with the subject (s) of the Russian Federation or Ministry of Energy of the Russian Federation till March, 15th of the year previous the planned period. The investment program of the Company, directed to the subject (s) of the Russian Federation or Ministry of Energy of the Russian Federation, shall be considered by the Board of Directors of the Company and approved for direction for the approval with the subject (s) of the Russian Federation or Ministry of Energy of the Russian Federation.

*5. The coordination and approval of the long-term investment program of the Company by the subject (s) of the Russian Federation or Ministry of Energy of the Russian Federation.*

At the given stage the subject (s) of the Russian Federation, Ministry of Energy of the Russian Federation, and also other subjects according to the legislation of the Russian Federation consider the long-term investment program generated by the Company, make remarks and offers. Within the limits of the given stage there is a discussion of remarks with the Company, and also specification of the long-term investment program of the Company by results of the coordination.

*6. Consideration of the report of General Director of the Company about the coordination or approval of the long-term investment program with the subject (s) of the Russian Federation on Board of Directors of the Company.*

At the given stage the Board of Directors of the Company considers the report of General Director of the Company about the assignment accomplishment to have the long-term investment program agreed upon or approved with the subject (s) of the Russian Federation. In case of decision making that the specified assignment has not been executed, the Board of Directors of the Company can assign General Director of the Company to correct the approved investment program in the order established by the law.

*5.3.3. Sequence of actions on forming the short-term (for 1 year) investment program of the Company within the limits of the program for tariff regulation period*

Process of forming the short-term (for 1 year) investment program of the Company within the limits of the program for tariff regulation period is annual and regulated by the Regulations of forming, adjustment of the investment program and reporting preparation about its execution in the Company (sequence of steps, terms, responsible persons).

The given process consists of the following stages (see Appendix 11):

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1. *Forming the short-term (for 1 year) investment program of the Company within the limits of the program for tariff regulation period.*

At the given stage forming of the short-term investment program of the Company, and its coordination is performed. Thus the Company is guided by the long-term investment program confirmed according to requirements of the current legislation, scenary conditions of forming of investment programs and financing sources for the corresponding period of planning.

2. *The coordination of the short-term investment program of the Company within the limits of preparation of the decision for the Board of Directors of the Company.*

At the given stage the generated and agreed at the Company's level short-term investment program is agreed within the limits of preparation of the decision for the Board of Directors of the Company about consideration of the short-term (for 1 year) investment program within the limits of the program for tariff regulation period as a part of the business plan of the Company.

3. *Transfer of the short-term (for 1 year) investment program within the limits of the program for tariff regulation period to the subject (s) of the Russian Federation or Ministry of Energy of the Russian Federation.*

According to normative acts of the Russian Federation the Company is obliged to give the short-term investment program to the subject (s) of the Russian Federation or Ministry of Energy of the Russian Federation till December, 15th of the year previous the planned. The investment program of the Company, directed to the subject (s) of the Russian Federation or Ministry of Energy of the Russian Federation, should be agreed within the limits of preparation of the decision for the Board of Directors of the Company.

4. *Inclusion of the short-term (for 1 year) investment program within the limits of the program for tariff regulation period in the Company's business plan.*

At the given stage the short-term investment program within the limits of the program for tariff regulation period is included in the Company's business plan.

5. *The approval of the short-term (for 1 year) investment program within the limits of the program for tariff regulation period as a part of the business plan of the Company.*

At the given stage the Board of Directors of the Company reviews an item on the business plan approval of the Company, including the short-term investment program within the limits of the program for tariff regulation period as a part of the business plan.

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#### 5.3.4. Setup of sources of financing of the investment program of the Company

Own and borrowed comprise the sources of financing of the investment program of the Company.

The *own sources* of the Company include:

- Depreciation;
- Not used depreciation of previous years;
- Net profit of fiscal year;
- Additional issue of shares of the Company;
- Other own sources.

The *borrowed sources* of the Company include:

- Borrowed funds;
- Funds of the federal budget;
- Funds of local budgets;
- Advances received from grid connection payment.

At planning of sources of financing the Company considers their unused balance. Thus planning of excess of use of sources in the previous periods is not allowed.

#### 5.3.5. Requirements to forming the long-term (not less than 5 years) and short-term (for 1 year) investment program of the Company within the limits of the program for tariff regulation period

Being the tool of achievement of long-term objectives and tasks of the Company, the long-term investment program should be formed on the basis of the accepted strategy of the Company, carry out agreed decisions of the Board of Directors of the Company, consider external and internal requirements which concern:

- The legislative documents regulating investment activity of electric grid companies;
- Schemes of development of electric grids of 35 kV and below (except for projects (facilities), included in the Program of consolidation of electric grid assets);
- Schemes and development programs of electric power industry of the subject (except for projects (facilities), included in the Program of consolidation of electric grid assets);

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- Maintenance of high technical condition of electric grid facilities;
- Instructions of Rostehnadzor, organisations supervising safety, including fire for elimination;
- Taking into account the requirements of SO UES;
- Coordination with investment programs of FGC UES and generating companies;
- Accomplishment of the obligations taken on before subjects of the Russian Federation;
- Requests received from consumers and concluded contracts for grid connection, forecasts of volumes of grid connection (broken down by subjects of the Russian Federation, nodes, facilities, groups of applicants);
- other requirements.

In the course of forming of the long-term investment program it is necessary to consider scenary conditions of forming of investment programs of the Company, targeted programs and Programs of consolidation of electric grid assets, confirmed by the Board of Directors of the Company taking into account available sources of financing.

The short-term investment program of the Company is the specified plan of the long-term investment program. Thus it should consider: the current financial condition of the Company, scenary conditions of forming of investment programs, seasonal features of realisation of investment projects, actual execution of works, occurrence of new requirements, restrictions and others.

#### **5.4. Process of adjustment of the short-term (for 1 year) investment program within the limits of the program for tariff regulation period**

##### *5.4.1. The reasons of adjustment of the short-term (for 1 year) investment program of the Company within the limits of the program for tariff regulation period*

Adjustment of the investment program is performed for the purpose of its reduction in conformity with the changed external factors. Within the limits of the given process the decision on necessity and validity of offered changes is made.

Within the process adjustment of the short-term investment program within the limits of the program for tariff regulation period is performed. Influence of changes of external factors on the long-term investment program is considered within the process of forming of the long-term investment program (see section 5.3.2).

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Adjustment of the short-term investment program within the limits of the program for tariff regulation period is conducted at the following essential changes:

a. Essential change of tariff and balance decisions;

Annually at receipt of tariff and balance decisions the decision on necessity of adjustment of the short-term investment program within the limits of the program for tariff regulation period is made. The adjusted short-term investment program within the limits of the program for the tariff regulation period, transferred to the subject of the Russian Federation or Ministry of Energy of the Russian Federation and confirmed in the order provided by the current legislation, is included into the business plan of the Company then the business plan is approved by the Board of Directors of the Company.

b. Essential changes by results of actual execution of the investment program for the last year;

c. Other changes.

Within the adjustment of the investment program the Company coordinates the adjusted investment program within the preparation of the decision for the Board of Directors of the Company prior its direction to the subject of the Russian Federation or Ministry of Energy of the Russian Federation.

Process of adjustment of the investment program of the Company is regulated by this Regulation and Regulations of forming, adjustment of the investment program and reporting preparation about its execution in the Company (sequence of steps, terms, responsible persons).

*5.4.2. Sequence of actions on adjustment of the short-term (for 1 year) investment program of the Company within the limits of the program for tariff regulation period*

Process of adjustment of the short-term (for 1 year) investment program within the limits of the program for tariff regulation period consists of the following stages (see Appendix 12):

*1. Adjustment of the short-term investment program of the Company within the limits of the program for tariff regulation period.*

Adjustment of the investment program of the Company is performed after approach of the events described in item 5.4.1 of this Regulation.

At adjustment of the investment program the information is prepared, which is similar to process of forming of the short-term investment program, and also:

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- 1) The sources of financing of the investment program agreed for the current period within the limits of the program for tariff regulation period broken down by subjects of the Russian Federation and as a whole for the Company;
- 2) The approved short-term investment program for the current period within the limits of the program for tariff regulation period broken down by subjects of the Russian Federation and as a whole for the Company;
- 3) Fact sheet about execution of the investment program for the past period of the current year broken down by subjects of the Russian Federation and as a whole for the Company.

The adjusted investment program should contain comparison with the originally confirmed plan (including the financing sources) and the justification of deviations from it.

2. *The coordination of the adjusted short-term investment program of the Company within the limits of preparation of the decision for Board of Directors of the Company.*

At the given stage the adjusted and agreed at the Company's level short-term investment program within the limits of the program for tariff regulation period is agreed within the limits of preparation of the decision for the Board of Directors of the Company.

3. *Consideration by the Board of Directors of the Company of an item on the adjusted short-term investment program of the Company as a part of the business plan of the Company and the assignment to General Director of the Company to provide the coordination (and/or approval) of the adjusted short-term investment program within the limits of the program for tariff regulation period with the subject (s) of the Russian Federation.*

At the given stage the Board of Directors of the Company considers the adjusted investment program of the Company within the limits of the program for tariff regulation period as a part of the business plan of the Company, and also the assignment to General Director of the Company to provide the coordination (and/or approval) of the given investment program with the subject (s) of the Russian Federation.

4. *Transfer of the adjusted short-term investment program of the Company within the limits of the program for tariff regulation period to the subject (s) of the Russian Federation or Ministry of Energy of the Russian Federation.*

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After consideration by the Board of Directors of the Company the adjusted short-term investment program of the Company within the limits of the program for tariff regulation period goes for approval to the subject (s) of the Russian Federation or Ministry of Energy of the Russian Federation.

*5. The coordination and approval of the adjusted short-term investment program of the Company within the limits of the program for tariff regulation period by the subject (s) of the Russian Federation or Ministry of Energy of the Russian Federation.*

At the given stage the subject (s) of the Russian Federation, Ministry of Energy of the Russian Federation, and also other subjects according to the legislation of the Russian Federation consider the adjusted short-term investment program, generated by the Company within the limits of the program for tariff regulation period, form remarks and offers. Within the given stage there is a discussion of the remarks with the Company, and also specification of the given investment program by results of its coordination.

*6. Consideration of the report of General Director of the Company about the coordination or approval of the adjusted short-term investment program within the limits of the program for tariff regulation period with the subject (s) of the Russian Federation at a meeting of the Board of Directors of the Company.*

At the given stage the Board of Directors of the Company considers the report of General Director of the Company about the assignment accomplishment to provide the coordination and/or approval of the adjusted short-term investment program within the limits of the program for tariff regulation period with the subject (s) of the Russian Federation.

In case of decision making that the specified assignment has not been executed, the Board of Directors of the Company can assign General Director of the Company repeatedly to adjust the confirmed investment program in the order established by the law.

In case of decision making that the specified assignment has been executed, the Board of Directors of the Company approves the investment program as a part of the business plan of the Company.

**5.5. Coordination and monitoring of execution of the investment program**

Process of coordination of execution of the investment program of the Company concerns operational management of realisation of investment projects. The primary goal of the given process is timely accomplishment of the investment program at keeping the planned and confirmed technical parametres of investment

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projects, cost indexes, indicators of economic and power efficiency of investment projects and the investment program as a whole, etc.

Thus execution of the investment program of the Company is performed in two forms:

1) *Project management.*

Project management is applied to realisation of the major investment projects, targeted programs where one responsible person for realisation of the project (Project leader) of the targeted program is assigned. See section 6 for more details.

2) *Functional management.*

In other cases realisation of projects is performed according to functional distribution of obligations and powers fixed by internal normative documents of the Company.

General Director of the Company bears responsibility for realisation of the investment program and investment projects included in its setup in the fixed terms, appropriate quality, with no excess of cost of investment projects over the planned confirmed parameters at any form of execution of the investment program.

Execution of the investment program consists of the following main stages:

1. The detailed planning of the schedule and processes of realisation of projects within the limits of project management - schedule planning and formation of processing lines;
2. Planning of the schedule and processes of realisation of projects in conformity with the established format of the schedule of realisation of projects;
3. Preparation and receipt of Initial permissive documentation;
4. Receipt of land allotment;
5. Development and approval when due hereunder of the technical specifications on carrying out design and survey work;
6. Preparation of the necessary documentation for realisation of purchases of services in carrying out design and survey work;
7. Conclusion and signing of contracts with contractors and suppliers;
8. Payment of advance fees on concluded with contractors agreements to perform design and survey work;

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9. Control of terms, costs and quality of performance of design and survey work;
10. Examination (internal/external) and approval of design and survey work when due hereunder;
11. Settlements with contractors for design and survey work;
12. Preparation of the necessary documentation for realisation of purchases of services in construction, modernisation, retrofitting, and also for purchase of materials and equipment (including contract templates for supply, for construction and installation work, for commissioning work, and for design and survey work);
13. Contracting and organisation of accomplishment of supply, construction and installation work, commissioning work, etc.;
14. Organisation of work which is carried out using own resources;
15. Payment of advances on concluded with contractors contracts on accomplishment of works on construction, modernisation, retrofitting;
16. Control over terms, costs and quality of construction, modernisation, retrofitting, carried out by the contractor;
17. Control over time of delivery and cost of materials and equipment, and also their packing;
18. Organisation of work which is carried out using own resources;
19. Acceptance of work executed by the contractor on construction, modernisation, retrofitting, carried out by the contractor;
20. Making payments by results of acceptance of the work executed by the contractor (design and survey work, construction and installation work, commissioning work etc.);
21. Facility commissioning for operation;
22. Registering as the fixed assets in the accounting.

The primary goal of monitoring of execution of the investment program is revealing and timely reaction to negative events during the operational period.

The order, terms, forms of the control and monitoring of risks of the business process «Investment activity» are regulated by the Regulation about the control environment and risks of the business process «Investment activity», and also other internal normative acts of the Company.

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At level of management of the executive office of the Company two levels are allocated on which the control and coordination of actions on execution of investment projects are performed:

- 1) The major projects, control and coordination of execution of which is performed at the level of:
  - Forming and control of execution of schedules;
  - Activity estimations of the Company's execution of the Investment Development Program regarding capital construction with visits to construction sites;
  - Control of absence of unreasonable rise in price of construction/reconstruction at signing of acts of the executed work and conformity of cost of commissioned facilities with the confirmed design and estimate documentation;
  - Others.

The list of the major projects is determined according to the order of allocation of the management objects, presented in Appendix 4.

- 2) Other projects, monitoring, control and coordination of actions on execution of which is performed at the level of the main indicators on groups of programs and programs. The control at more detailed level is performed in case of considerable deviations on monitored indicators (deviations from the plan, negative dynamics etc.).
- 3) At the management level of a branch of the Company the control and coordination of actions on execution of all investment projects is performed at one level, similar to the major projects at the Company's level.

## **5.6. Forming of the reporting and analysis of execution of the investment program of the Company**

### *5.6.1. Sequence of actions on reporting forming about execution of the investment program of the Company*

Process of forming of the reporting and analysis of execution of the investment program of the Company has periodic character and is performed following the results of each quarter (except the 4th), following the results of a year, and also as required.

Within the given process the Company forms the reporting about execution of the confirmed investment program. The order and formats of forming of the specified reporting are established by normative acts of the Russian Federation for subjects of electric power industry, Regulations of forming, adjustment of the investment

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program and reporting preparation about its execution in the Company, and also according to requirements of the Ministry of Energy of the Russian Federation on the formats and terms of submitting of the reporting under the investment projects which realisation is performed with use of means of the federal budget.

The given process consists of the following stages (see Appendix 12):

*1. Reporting forming about execution of the investment program of the Company.*

The specified reporting is formed by the Company «from below upwards» according to the structure of participants of investment activity broken down by branches of the Company (subjects of the Russian Federation) and as a whole for the Company broken down by investment projects. The reporting about execution of the investment program is signed by General Director of the Company, and then it goes for the coordination within the limits of preparation of the decision for the Board of Directors of the Company.

*2. The reporting coordination about execution of the investment program of the Company within the limits of preparation of the decision for the Board of Directors of the Company.*

At the given stage the generated and agreed at the Company's level reporting about execution of the investment program is agreed within the limits of preparation of the decision for the Board of Directors of the Company.

*3. Reporting direction about execution of the investment program of the Company to the subject (s) of the Russian Federation or Ministry of Energy of the Russian Federation.*

The reporting about execution of the investment program of the Company, agreed within the limits of preparation of the decision for the Board of Directors of the Company, is given to the subject (s) of the Russian Federation or Ministry of Energy of the Russian Federation in the order, formats and according to the terms established by normative acts of the Russian Federation: in 45 days after the completion of the reporting period - the quarter reporting and till April, 01st of next year after the reporting one - the annual reporting.

*4. The reporting approval about execution of the investment program at the Board of Directors of the Company.*

The reporting about execution of the investment program is approved by the Board of Directors of the Company after its direction to the subject (s) of the Russian Federation or Ministry of Energy of the Russian Federation as a part of the report on the Company's business plan execution.

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5.6.2. *The decisions accepted by results of carrying out of the analysis of execution of the investment program of the Company*

At the analysis of execution of the investment program the estimation of its execution is based on the following main criteria broken down by subjects of the Russian Federation and as a whole for the Company:

- 1) Deviation of the fact of execution from the plan of the investment program *on the main financial and economic indicators* (the amount of development, commissioning and decommissioning of the fixed assets, financing etc.);
- 2) Deviation of realisation value of the investment project from the confirmed in the design and estimate documentation one under the major projects monitored at the level of the Company and Board of Directors of the Company.
- 3) Plan observance on *commissioning of capacities*;
- 4) Deviation of the fact of execution from the plan of the investment program *on the main technical parametres* (achievement of parametres of technical condition of facilities etc.);
- 5) *Execution of performance indicators of the investment program (following the results of a year)*;
- 6) Deviations from schedules of accomplishment of works (schedules) under the major projects monitored at the level of the Company and Board of Directors of the Company;
- 7) Deviation of the fact of financing of the investment program from the planned volume as a whole under the investment program and broken down by the major projects monitored at the level of the Company and Board of Directors of the Company.

Process of forming of the reporting and analysis of execution of the investment program of the Company is a basis for decision making about:

- necessity of adjustment of the investment program;
- validity of the investment program for the next period of planning;
- expediency of realisation of investment projects;
- bonus payment or bonus reduction for responsible persons for planning and execution of the investment program of the Company;
- bonus payment or bonus reduction for responsible persons for initiation of investment projects;
- bonus payment or bonus reduction for separate responsible persons according to Appendix 2;

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- change of the system of planning and execution of the investment program of the Company;
- others.

## 6. Project management

For the purpose of improvement of quality of accomplishment of the requirements established by the investment program – on time, cost and conformity of results of realisation of the project to the technical and other characteristics confirmed in the design and estimate documentation –the Company *implements* a system of project management.

The technology of project management is applied concerning the investment projects allocated in the Investment program as a part of the major projects, and also under investment projects on which the decision has been accepted to transfer them in the setup of project management objects.

For the project management process organisation the Company uses a project management system. Project management bodies in the Company include: Managing Committee, Working group, Project leader.

Activity of all participants of project management is regulated by the project Charter. The Project leader is appointed by Order of General Director of the Company.

Distribution of competences of the specified bodies within the limits of management of projects is as follows.

*Managing Committee* – a body in the organizational structure of management of projects. The Committee’s activity is regulated by the Regulation about the Managing Committee.

The key decisions refer to the competence of the Managing Committee:

- Modification of accomplishment terms, cost, technical solutions and quality of works;
- Deviations during the course of implementation of projects if they exceed the allowed ones. The acceptable range of values of deviations is established for each project by the decision of the Working group on the main indicators: terms, cost, quality;
- Enhancement of the project management system.

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*Working group* – an organizational level of project management following the Committee's. The activity of the Working group is regulated by the Regulation about the Working group.

Solutions to the questions refer to the competence of the Working group:

- Coordination with the Managing Committee of modification of planned dates and resources of projects, planned changes during realisation of projects;
- Control over the course of realisation of investment projects on the basis of the reporting of Project leaders and analysis of schedules;
- Deviations during the course of implementation of projects, if they are not above planned deviations etc.

*Project leader* – an employee of the Company, appointed by General Director of the Company – the person responsible for realisation of the project in the Company which competence covers the solution to the questions:

- Reporting forming under the project;
- Decision making within the Project Management Team in the framework of planned resources;
- Control over the course of the investment project on the basis of the reporting of the Project Management Team and analysis of the project schedule;
- Taking measures on elimination of deviations during the course of performance the project, if they are not above planned deviations, etc.

Activity of the Project leader is regulated by the project Charter which specifies:

- Tasks of the Project leader;
- Functions and job duties of the Project leader.

Process of project management is provided with the following normative documents:

- the Regulation about the Working group;
- the Regulation about the Managing Committee;
- Duty regulations;
- Typified Project Charter;
- Typified schedules.

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For successful implementation of the project management system the Company on a regular basis organizes training and certification of the personnel participating in project management, and also implements modern tools of information support of activity in the field of project management.

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