

Business Plan

Property

2019-2024

Standard and Alternate Control

Supporting Document 12.1.18

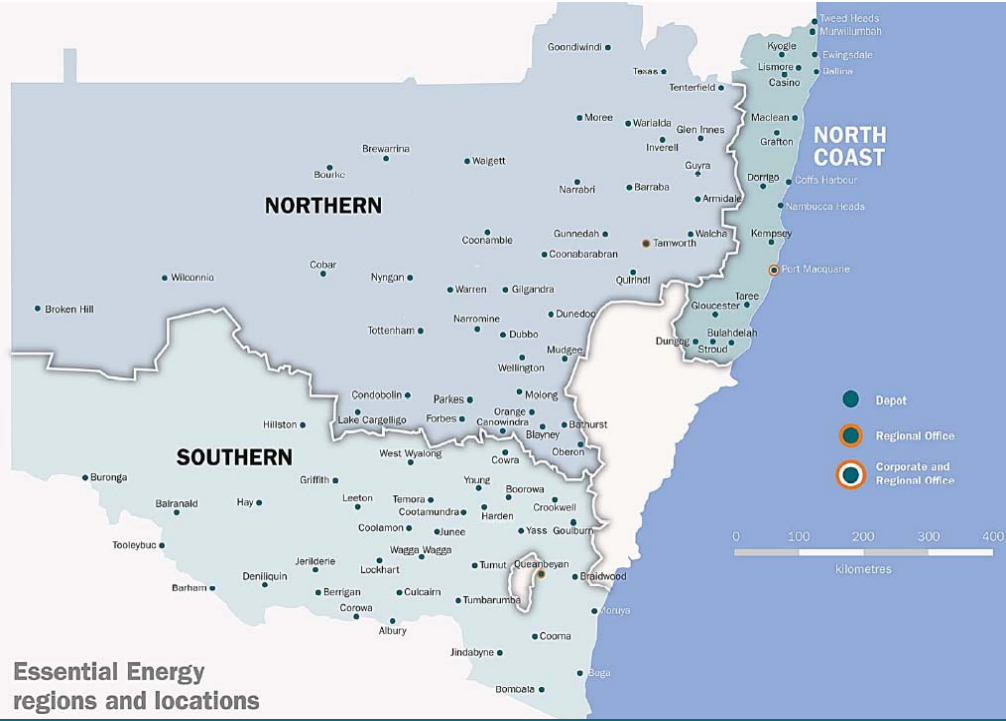
Executive Summary

> Property Functional Delivery Pillars



Executive Summary

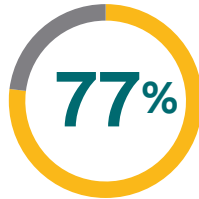
> Property Portfolio Overview



ASSET HEALTH



Very Poor - Fair



Good – V Good



- > FTE's = 22
- > Vendor Companies = 544



- > Over 4,000 Active Security Users
- > Approximately 6,800 secure site accesses daily
- > Over 1,000 new security applications each year



- > Approx. 3,800 Reactive jobs logged per annum
- > Approx. 6,000 Invoices processed annually
- > 173 Licences and Leases managed annually



- > 3,720 Compliance records managed annually
- > Over 10,000 Fire and Life assets managed annually
- > \$21M p/a in Planned and Corrective contractor works



- > Management of \$5.4M in annual rental agreements
- > Management of \$5M waste contracts
- > Management of \$4.8M in electricity contracts



Registered Sites
980



Depots
96



Residences
16



Offices
10



Heritage
13



Executive Summary - Business Plan Context

Current State

2018

Property Team – Start of transformation to move to Integrated Facilities Management (IFM) Maturity and Best Practice Asset Management Models

Redesign

2019

Org and Systems redesign to support strategic IFM and Asset Management delivery models

Portfolio Strategic Asset Management Plan (SAMP) developed for future operational model

Readiness

2020

Embed strategic systems and processes for commercial sustainability and IFM Maturity Model readiness

Transition

2021

Transition Property Team to IFM Maturity Model with commercial and risk management assurance programs

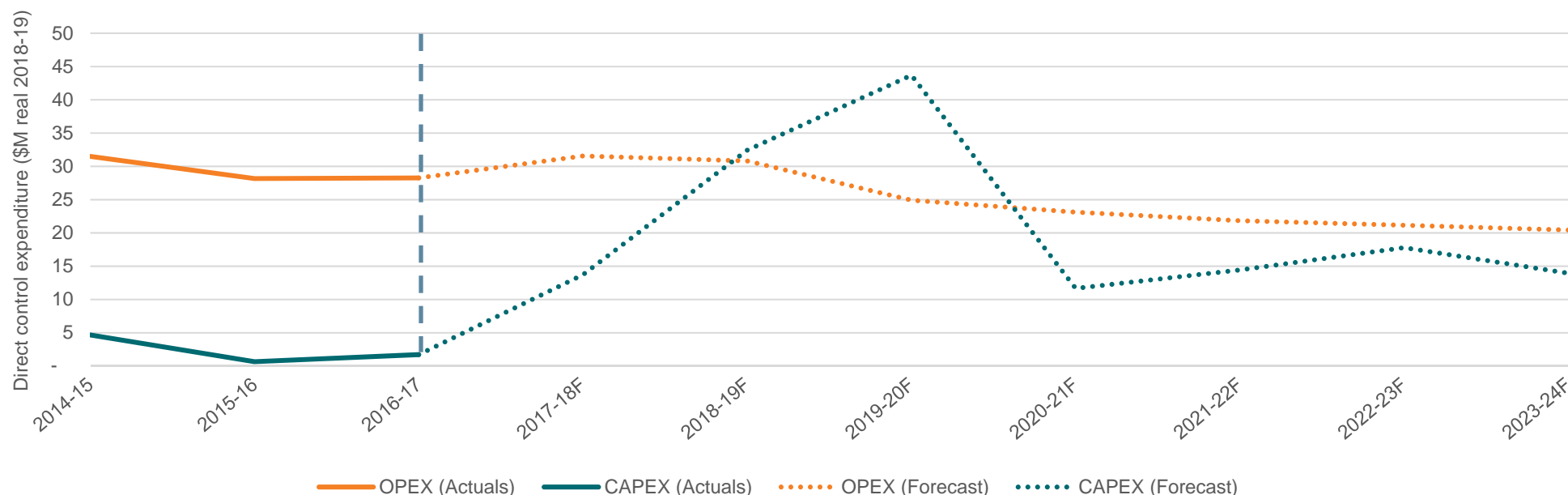
Executive Summary – Financial

\$102M

2019-24 CAPITAL
INVESTMENT PLAN

\$112M

2019-24 OPERATIONAL
INVESTMENT PLAN



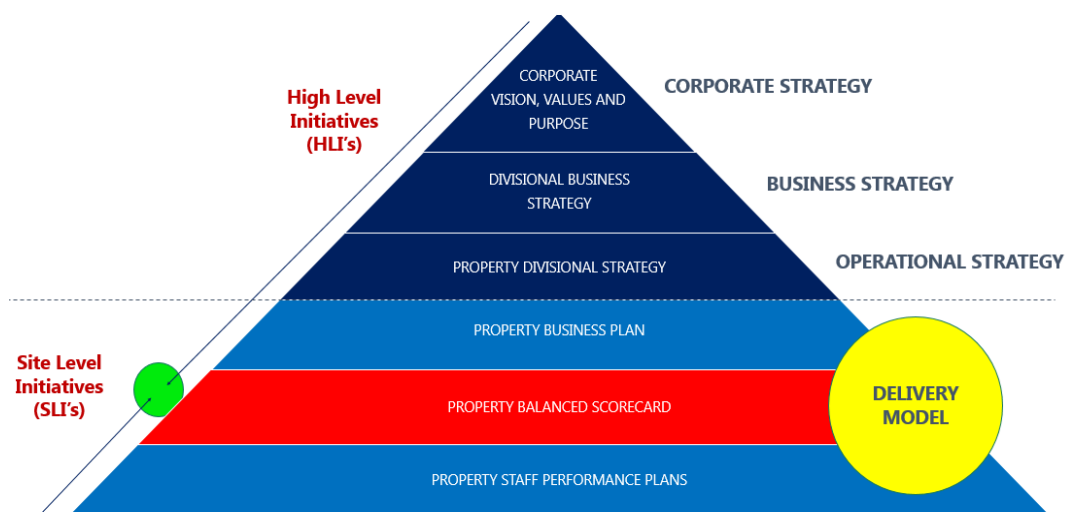
| \$M real 2018-19 | 2014-15 | 2015-16 | 2016-17 | 2017-18F | 2018-19F | 2019-20F | 2020-21F | 2021-22F | 2022-23F | 2023-24F |
|------------------|---------|---------|---------|----------|----------|----------|----------|----------|----------|----------|
| Opex | \$31.5 | \$28.2 | \$28.3 | \$31.6 | \$30.8 | \$24.9 | \$23.1 | \$21.8 | \$21.2 | \$20.4 |
| Capex | \$4.7 | \$0.7 | \$1.7 | \$13.7 | \$32.4 | \$43.7 | \$11.7 | \$14.4 | \$17.8 | \$13.9 |

Executive Summary - Key Cost Drivers

| Key Drivers of Opex | Key Drivers of Capex |
|---------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| Fully Outsourced Services Model - Service agreements annual cost increases | Previous years of cost containment has led to latency issues resulting in increased capital |
| Retail electricity price increases | Deterioration of aging infrastructure has resulted in WHS risk issues requiring end-of life refurbishment and replacement programs |
| Waste contract volumes and cost increases | Standard life-cycle replacement of assets |
| Deferred activity from previous cost containment period driving higher level reactive works | Capital program 'back-end loaded' due to previous years of cost containment |
| High cost to serve for remote area contractors | Capitalisation of Property Leases as per AASB16 to value of \$28M in FY20. |

Executive Summary – Strategic Factors

Property Management: Strategic Planning



Property Management: Strategic Focus



Statutory Compliance

Ensuring our properties are compliant and safe to occupy.



Technology

Enabling technology for statutory compliance and strategy delivery



Talent

Capability of internal and external resources to delivery strategy.



Asset Management

Adoption of Best Practice Physical Asset Management Methodology



Customer Service

Improve systems and processes for improved responsiveness and business support.



Risk and Governance

Holistic risk management model that mitigates corporate, financial and delivery pillar risks.

KEY CHALLENGES

1. **Strategy:** Asset Management System required for Best Practice Strategy Delivery
2. **Cost:** High 'Cost to Serve' due to regional locations and out-sourced contractor model.
3. **Talent:** Resource availability and capability due to regional operations
4. **Delivery:** High risks associated with Australian FM industry service providers
5. **Investment:** Aging property infrastructure requiring increased asset and operating capital
6. **Structure:** Departmental resources required to meet business obligations
7. **Security:** Critical Infrastructure and changing security environment

KEY OPPORTUNITIES

1. Technology that provides critical functionality for Property Asset Management
2. Resource and activity analytics for commercial optimisation
3. Best Practice attracts Best Talent – Deliver best practice strategy
4. Strategic Partnerships with assurance program
5. Leverage CMMS / EAMS for Maintenance Strategy and Life Cycle Capital Plans
6. Specialist resources required and Learning & Development program
7. Specialist resource and capital investment required

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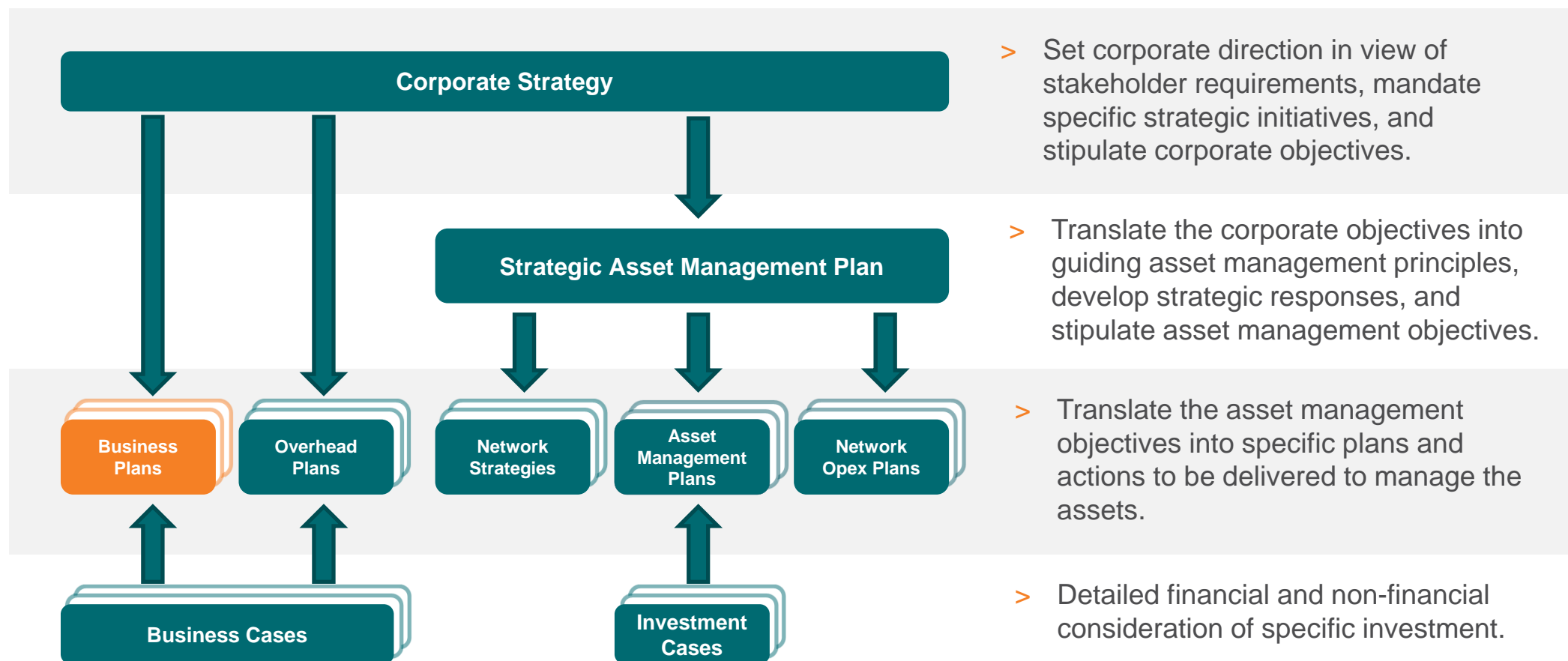
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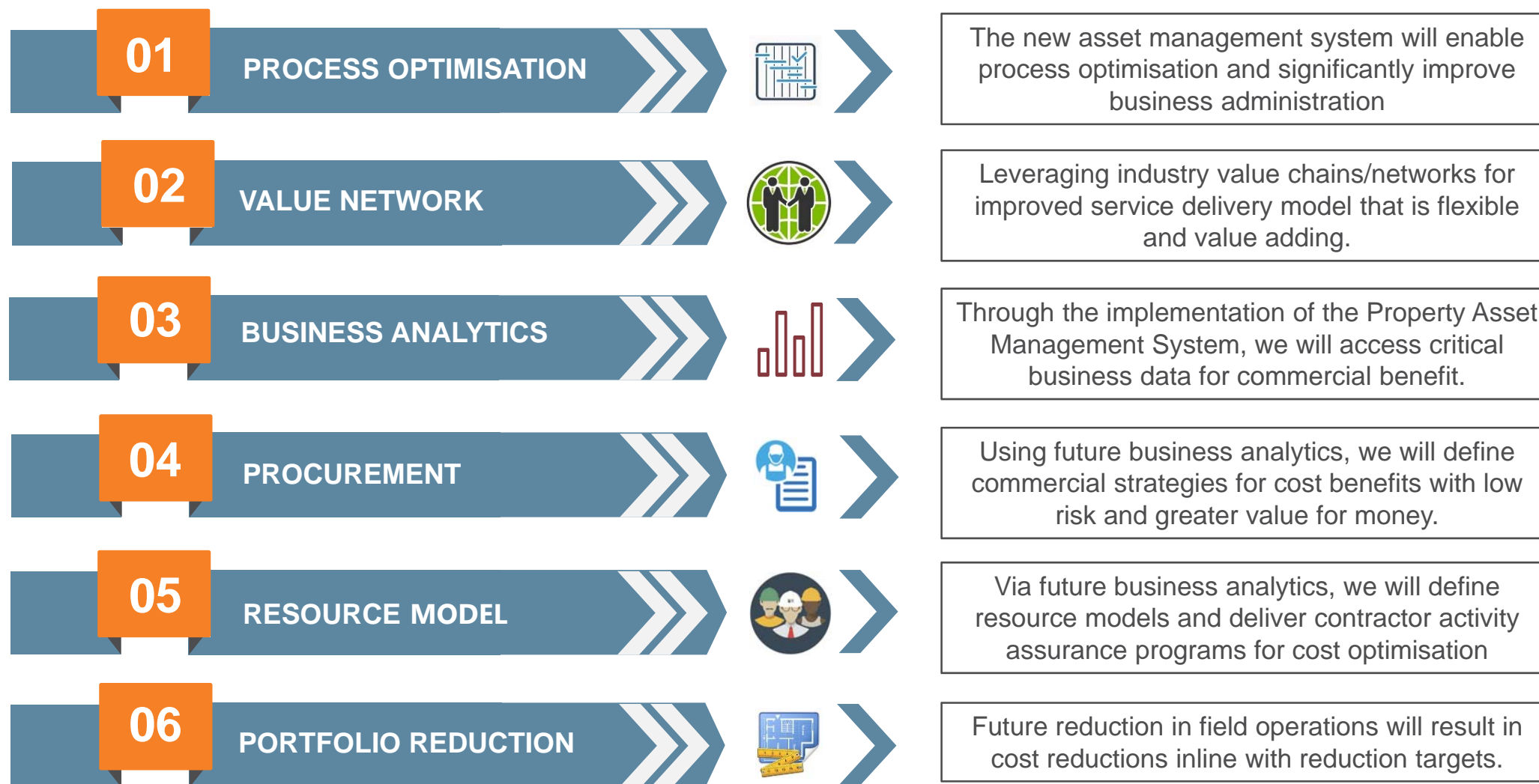
Document hierarchy and purpose



Strategic Focus



Cost Reduction Initiatives



Asset Overview

- > Essential Energy's facilities act as 24-hour strategic response locations for minor and major outages across the electricity network.
- > These facilities need to withstand extreme weather conditions whilst ensuring field based employees are able to safely load and unload critical work materials and deploy key plant and equipment to the field in a hazard free working environment.
- > Failures to facilities during both during normal operations and severe weather conditions impacts Essential Energy's ability for timely and safe response to electricity network outages.
- > The facilities accommodate field and office based staff, providing storage facilities and workshop space for the management of goods, materials, and equipment used in the operation and maintenance of Essential Energy's network.
- > The strategic location and geographical spread of the Property Portfolio assets provides the basis for maintaining the reliability of the network.
- > Essential Energy predominantly owns specialised assets, such as regional depots, and leases more generic buildings such as offices.

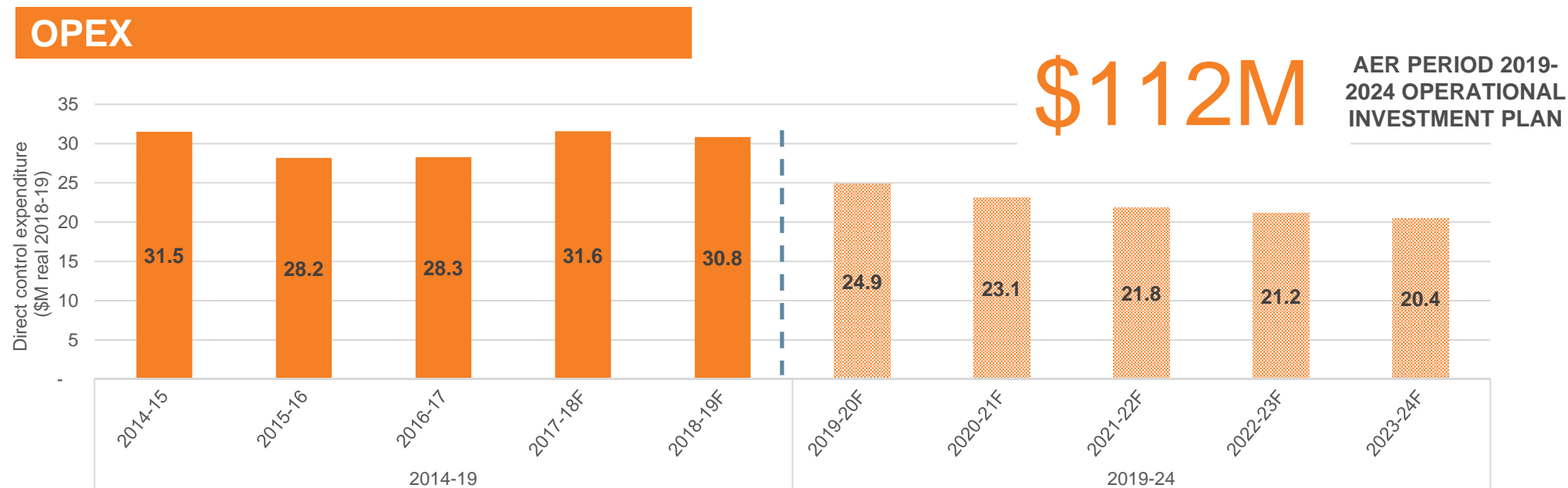
| Asset | Comments | Quantity |
|---------------------|-----------------------------------------------------------------------------------------------------------------------|----------|
| 1. Registered Sites | Total number of sites. This includes leases and licences for registered property. e.g. State Forestry, Local Councils | 980 |
| 2. Depots | Accommodation of systems operations staff and equipment | 96 |
| 3. Offices | Combination of Administration and Network System Control Rooms | 10 |
| 4. Residences | Residential accommodation for remotely located staff. This includes Essential Energy and Water residences. | 16 |
| 5. Heritage sites | Registered Heritage sites requiring regulated upkeep program | 13 |

Asset Health Profile

- > As an integral part of monitoring and maintaining the economic value of the Property Portfolio assets, a full condition assessment is conducted on all depots, ancillary property related buildings (e.g. telecommunications huts) and office buildings every year. An external contractor is also used every four years to provide verification and comparison of the internal process and findings.
- > The results of these condition assessments determine the effectiveness of prudent asset management strategies applied to the Property Portfolio. The condition of the property asset guides the asset management decision process and is used to measure the cost effectiveness of the strategy implementation.
- > A detailed independent condition assessment survey was undertaken in 2017, with the results forming the foundation of Essential Energy's property asset management practices as set out in this document.

| Type | Quantity | Very Poor | Poor | Fair | Good | Very Good |
|--------------------|----------|-------------------------------------------------------------------------|------|------|------|-----------|
| Depots and Offices | 96 | 1% | 4% | 19% | 43% | 34% |
| Residences | 16 | Not Assessed – subject to Essential Energy's property disposal strategy | | | | |
| Heritage Sites | 13 | Not Assessed – subject to Essential Energy's safety compliance strategy | | | | |

Operational Expenditure



| \$M real 2018-19 | 2019-20F | 2020-21F | 2021-22F | 2022-23F | 2023-24F |
|----------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Facility Maintenance | \$11.2 | \$11.2 | \$11.2 | \$11.2 | \$11.2 |
| Rates, Electricity and Land Tax | \$9.7 | \$9.7 | \$9.7 | \$9.7 | \$9.7 |
| Reactive Maintenance | \$2.5 | \$2.5 | \$2.5 | \$2.5 | \$2.5 |
| Regulatory, Security and Compliance | \$2.8 | \$2.8 | \$2.8 | \$2.8 | \$2.8 |
| Management Initiatives | \$-1.2 | \$-3.0 | \$-4.3 | \$-4.9 | \$-5.7 |
| AER Regulatory Proposal 2019-24 | \$24.9 | \$23.1 | \$21.8 | \$21.2 | \$20.4 |

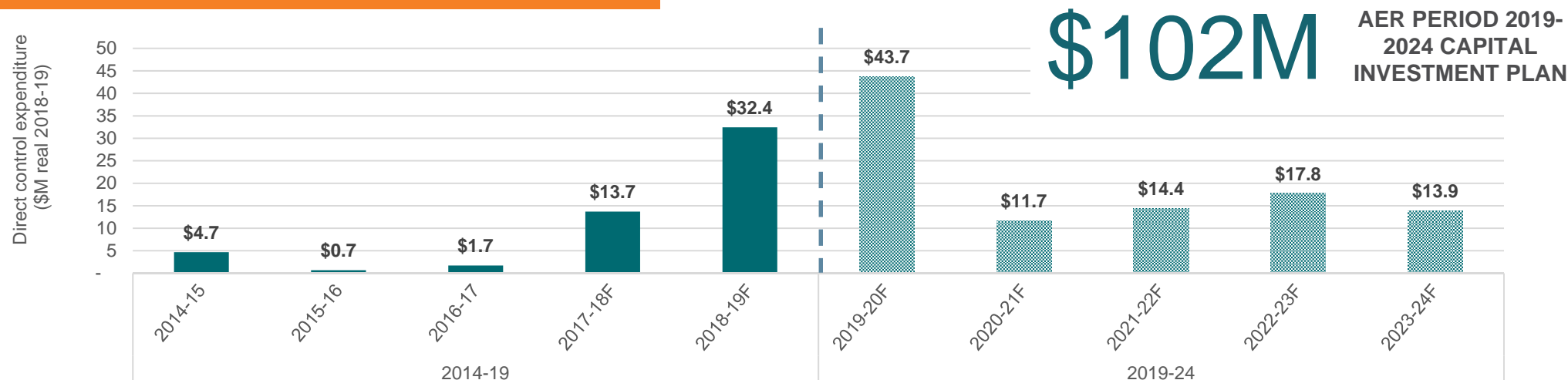
Impact of AASB 16 Leases

- > The current accounting standard relating to leases AASB 117 is being replaced by a new accounting standard AASB 16 with impact on Essential Energy from FY19/20.
- > Under the current lease accounting standard rental payments are recognised in operating expenditure over the lease period, with no recognition of a leased asset or a liability for future contracted payments. Under the new standard a lease liability and a corresponding 'right of use' asset are recognised in the balance sheet. In the Income Statement lease payments are replaced by a depreciation expense on the asset, and an interest expense (using our borrowing rate) on the lease liability.
- > The following table shows the high level impact of implementing AASB 16 as reflected in the Q2 forecast. This does not take into account overhead allocations to capex projects.

| FINANCIAL YEARS FY19 Real (\$ m) | 2019-20F | 2020-21F | 2021-22F | 2022-23F | 2023-24F |
|--------------------------------------------------------|----------|----------|----------|----------|----------|
| Rental expenses no longer opex | \$-5.0 | \$-5.1 | \$-5.2 | \$-5.4 | \$-5.5 |
| Increase in 'Capex' reflecting capitalisation of lease | \$28.1 | \$2.1 | \$0.4 | \$3.8 | \$0.1 |

Capital Expenditure

CAPEX



| \$M real 2018-19 | 2019-20F | 2020-21F | 2021-22F | 2022-23F | 2023-24F |
|--------------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Capital Project Services | \$1.3 | \$1.3 | \$2.0 | \$2.0 | \$2.0 |
| Condition Assessment Capital Replacement Program | \$3.2 | \$3.2 | \$5.0 | \$5.0 | \$5.0 |
| Critical Building Infrastructure | \$0.4 | \$0.4 | \$0.6 | \$0.6 | \$0.6 |
| Physical Security | \$0.9 | \$0.5 | \$0.3 | \$0.1 | \$0.1 |
| Office | \$5.8 | \$0.5 | \$0.5 | \$0.5 | \$0.5 |
| Operational Capital | \$2.1 | \$2.2 | \$3.3 | \$3.3 | \$3.4 |
| Property Asset Management | \$0.2 | \$0.1 | \$0.1 | \$0.1 | \$0.1 |
| Statutory Compliance | \$1.4 | \$1.4 | \$2.1 | \$2.1 | \$2.1 |
| Sustainability | \$0.2 | \$0.2 | \$0.3 | \$0.3 | \$0.3 |
| Total Property Projects | \$15.6 | \$9.6 | \$14.0 | \$14.0 | \$13.9 |
| Capitalised Leases | \$28.1 | \$2.1 | \$0.4 | \$3.8 | \$0.1 |
| Total | \$43.7 | \$11.7 | \$14.4 | \$17.8 | \$13.9 |

Key Challenges

| Key Challenge | Description | Opportunity |
|---------------|-----------------------------------------------------------------------------------|-------------------------------------------------------------------------------|
| STRATEGY | > Asset Management System required for Best Practice Strategy Delivery | Technology that provides critical functionality for Property Asset Management |
| COST | > High 'Cost to Serve' due to regional locations and out-sourced contractor model | Resource and activity analytics for commercial optimisation |
| TALENT | > Resource availability and capability due to regional operations | Best Practice attracts Best Talent – Deliver best practice strategy |
| DELIVERY | > High risks associated with Australian FM industry service providers | Strategic Partnerships with assurance program |
| INVESTMENT | > Aging property infrastructure requiring increased asset and operating capital | Leverage CMMS / EAMS for Maintenance Strategy and Life Cycle Capital Plans |
| STRUCTURE | > Departmental resources required to meet business obligations | Specialist resources required and Learning & Development program |
| SECURITY | > Critical Infrastructure and changing security environment | Specialist resource and capital investment required |

Risk Considerations

Risk and control context

- > Unable to access depot assets and equipment resulting in inability to carry out planned or emergency work
- > Inadequate physical security measures resulting in loss or damage to property
- > Lack of internal and external resources to meet departmental deliverables
- > Unable to implement property asset management system that meets end user requirements
- > Unable to meet statutory obligations due to lack of strategy support and understanding of requirements
- > Unable to meet forecast initiative outcomes due to unforeseen elements and information

Alternative / differentiated control options considered

- > Total outsourcing of Property to IFM service provider. This will resolve many issues, however it will significantly increase operational expenditure

Current control effectiveness

- > compliance with relevant legislation and regulations;
- > relevant industry standards, emerging best practices and established sound practices;
- > availability of insurance in mitigating financial impacts;
- > findings from internal and external reviews, reports or investigations; and
- > organisational resilience and ability to respond to changes in the external environment.

Risk considerations and rationale for proposed plan

Proposed plan appropriately addresses current control issues and is targeted towards premises and assets based on:

- > Criticality to meet statutory compliance
- > Criticality to deliver safe-to-occupy properties
- > Criticality to meet business performance deliverables
- > Criticality to support business continuity

Relevant Legislation and Policies

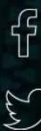
Legislation

| Document |
|----------------------------------------------------------------------------------------------------------|
| Building Codes of Australia |
| National Construction Code Volumes 1,2&3 |
| The Work, Health and Safety Act 2011 |
| Work Health and Safety Regulation 2017 |
| Environmental Planning and Assessment Amendment (Fire Safety and Building Certification) Regulation 2017 |
| Australian Codes of Practice |
| Australian Standards |
| Environment and Biodiversity Protection Act 1999 |
| Environmental Planning and Assessment Act 1979 |
| State Records Act 1989 |
| Building Act 1975 |
| NSW Planning and Assessment Act 1979 |
| Disability Discrimination Act 1992 |
| Real Property Act 1900 |
| Local Council Regulations |
| Protective Security Policy Framework |
| Fair Work Act 2009 |

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