

Business Plan

Property

2019-2024

Standard and Alternate Control

Supporting Document 12.1.18

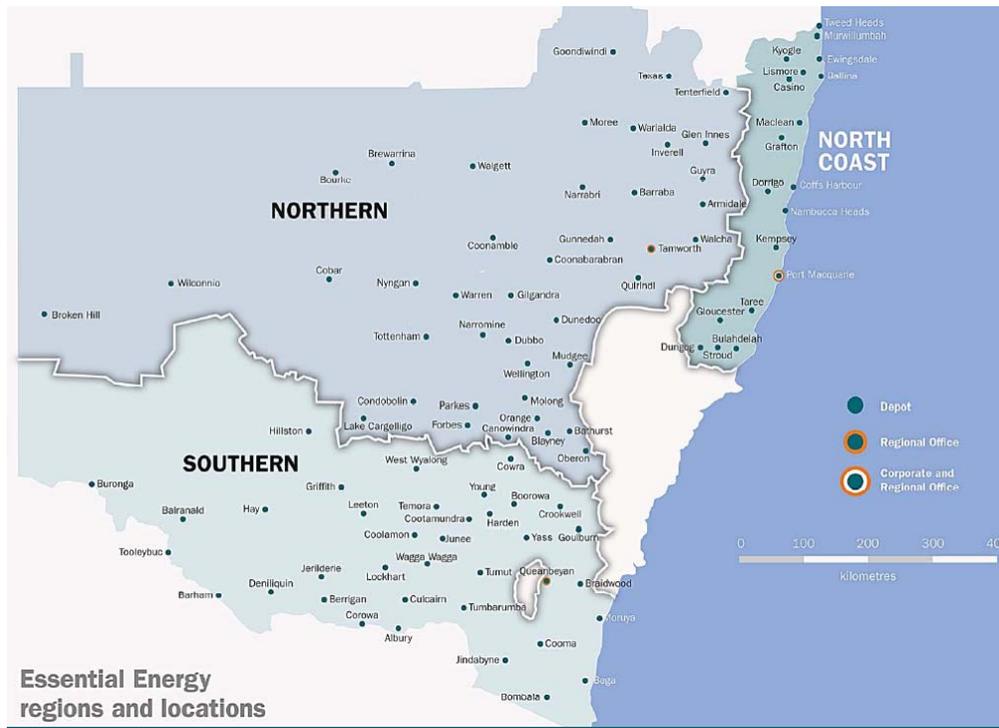
Executive Summary

> 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



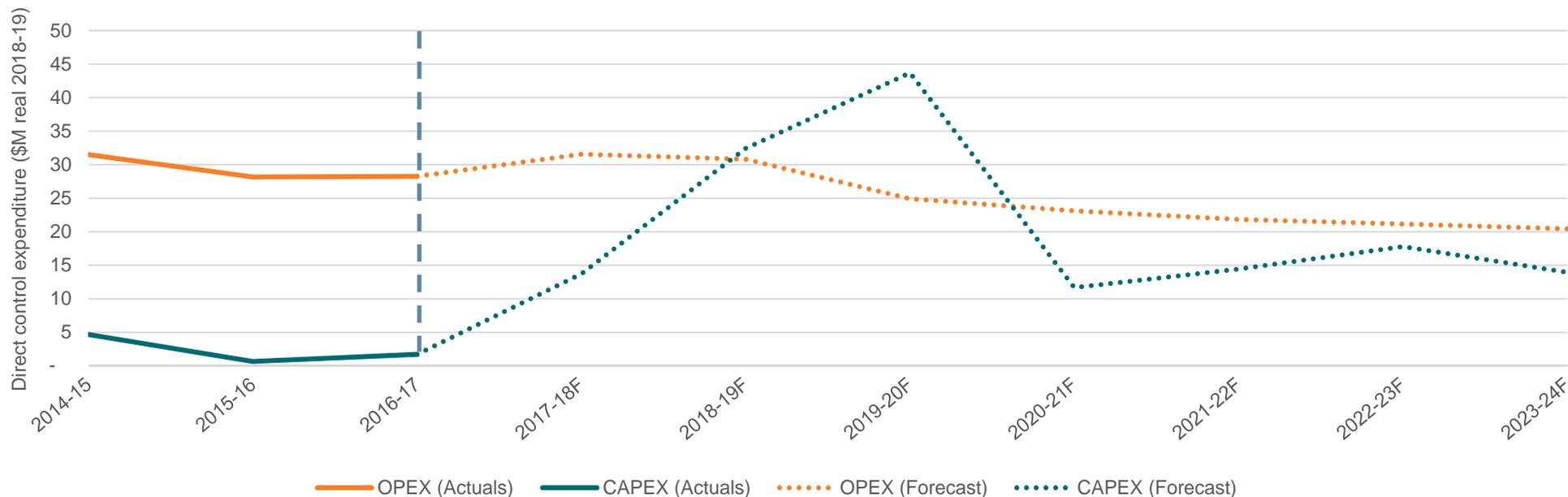
Executive Summary – Financial

\$102M

2019-24 CAPITAL INVESTMENT PLAN

\$112M

2019-24 OPERATIONAL INVESTMENT PLAN



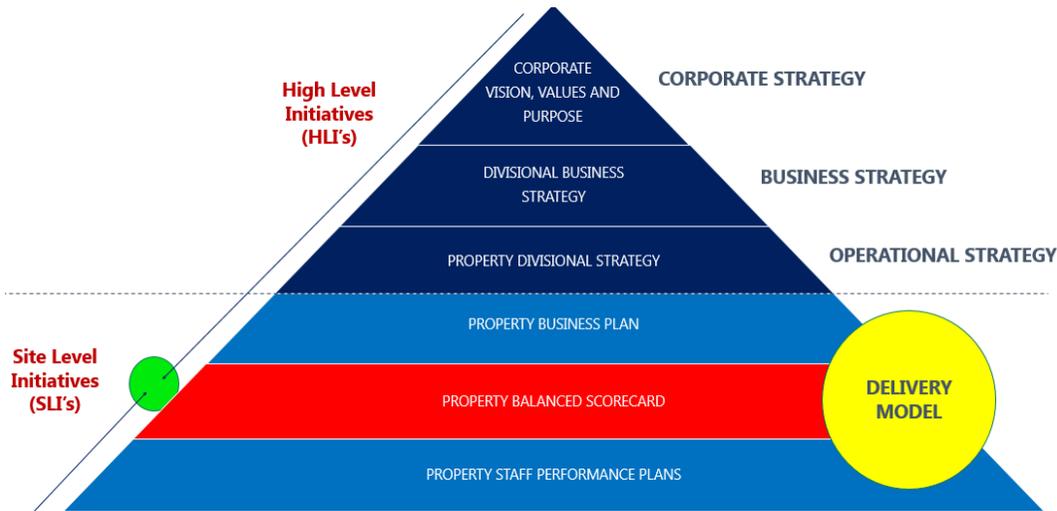
\$M real 2018-19	2014-15	2015-16	2016-17	2017-18F	2018-19F	2019-20F	2020-21F	2021-22F	2022-23F	2023-24F
Opex	\$31.5	\$28.2	\$28.3	\$31.6	\$30.8	\$24.9	\$23.1	\$21.8	\$21.2	\$20.4
Capex	\$4.7	\$0.7	\$1.7	\$13.7	\$32.4	\$43.7	\$11.7	\$14.4	\$17.8	\$13.9

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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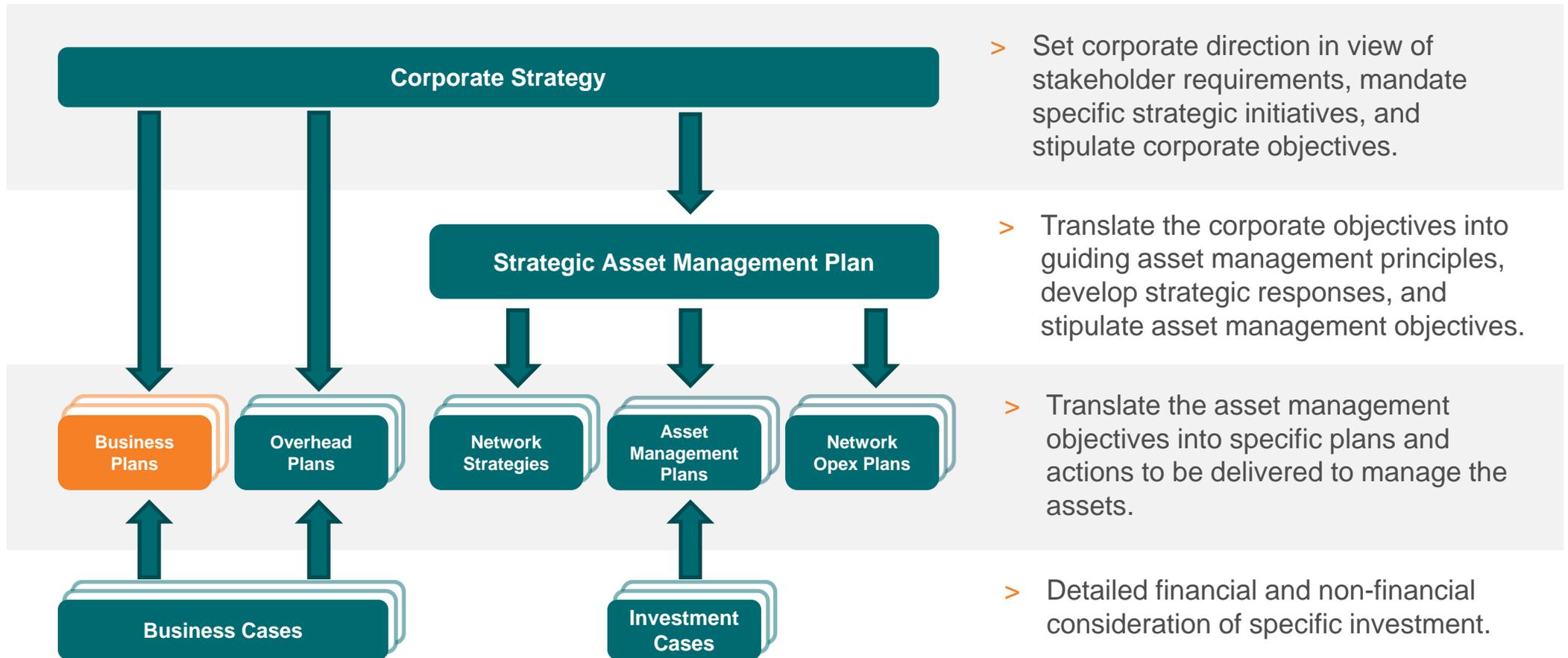
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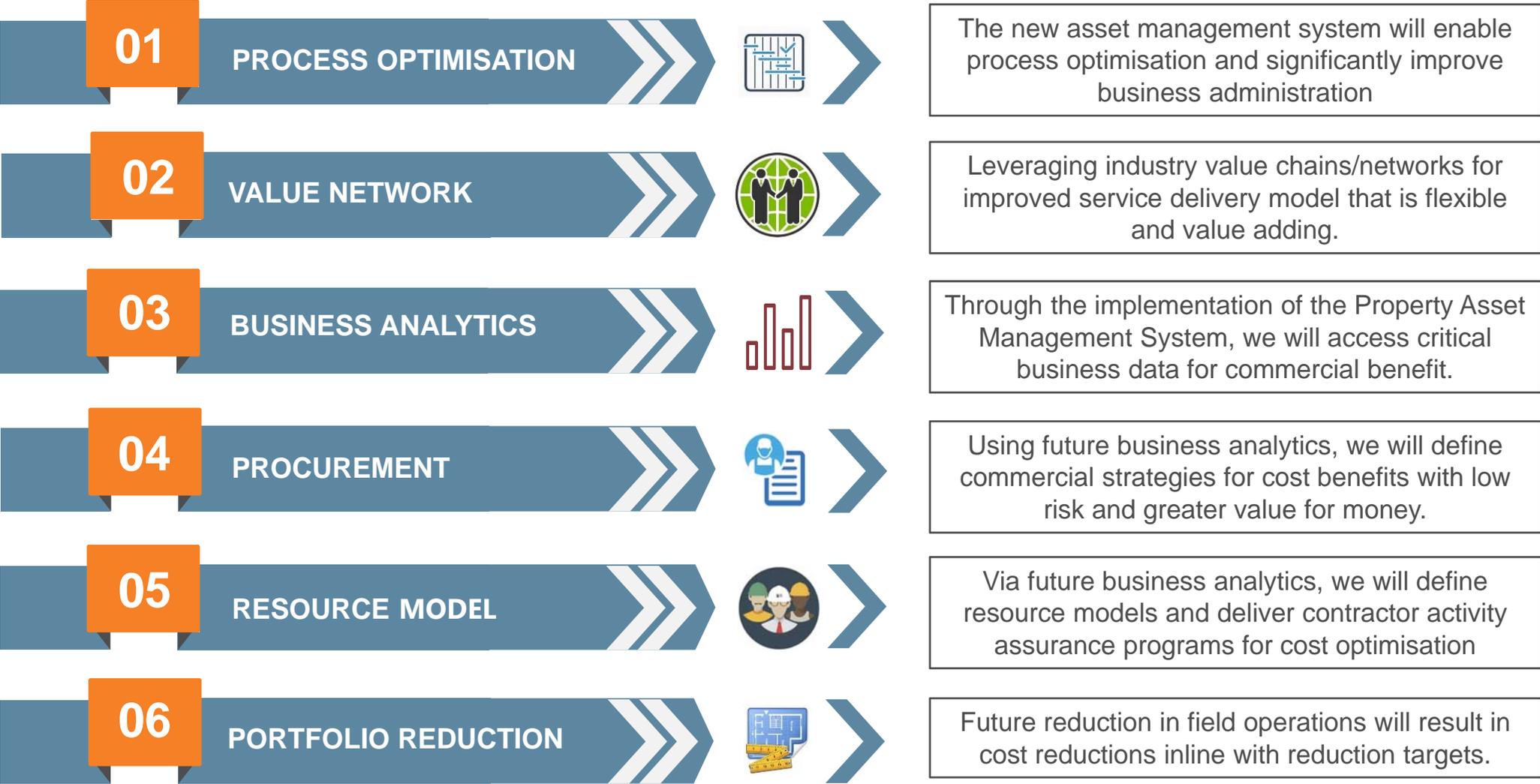
Document hierarchy and purpose



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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