

Attachment 6.08

Learning & Development operating expenditure plan

May 2014



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Executive Summary

We forecast \$151.853 million of operating expenditure (Opex) for Learning and Development.

This document provides an overview of our proposed opex to support our distribution network in the 2014-19 period. In total, we propose total opex of \$151.853 million over the period, comprised of the following operational activities:

- Apprentice Training
- Regulatory Training
- Post Trade Technical Training
- Engineering Officer Traineeships
- Engineering Scholarships and Graduate Engineering program support
- Organisational Development

This also includes expenditure that had been included under system maintenance previously.

The total opex is provided in the table below:

\$M (real 2013/14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Operating expenditure	29.650	29.661	30.096	30.841	31.604	151.853

During the last regulatory period a number of expenses that were related to the apprentice program were incorrectly allocated to system maintenance. Without the transfer of expenses from system maintenance the pattern of expenditure would have been as below:

\$M (real 2013/14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Operating expenditure	28.943	28.945	29.370	30.104	30.855	148.218

The focus of our strategy for the 2014-19 period is to ensure Learning & Development scales down in line with a reduced workforce and reduced future demand while still ensuring the current and future skills needs for Ausgrid's workforce are delivered.

The proposed opex would be 7.6% per cent lower than the actual spend in the 2009-14 period before the amounts previously allocated to system maintenance are factored in. Even with the transfer of costs the total is 5.3% lower than the actual spend in the prior period. This reflects the continuance of business as usual operations with the following change factors and efficiency savings:

- Reduction in apprenticeships and a corresponding reduction in trainers
- A predicted reduction in overall workforce size having a flow on reduction in regulatory and post-trade technical training
- Changing the current engineering cadetship model to a more economical scholarship program

Introduction

Learning & Development develop Ausgrid's workforce to attain the technical, professional, leadership and regulatory skills needed to safely build, maintain and operate an efficient, reliable network.

The purpose of this document is to provide an overview of our forecast opex to meet our obligations in delivering Learning & Development for the 2014-19 period. Appendix A identifies supporting documents to this overview which provide more information on our models, input assumptions, and planning frameworks.

The introduction below provides background on the characteristics of our functional operations, and the reasons why we are required to undertake them to achieve the overall strategic objectives of Ausgrid.

Objectives

The objectives of Learning & Development is to develop Ausgrid's workforce to attain the technical, professional, leadership and regulatory skills needed to safely build, maintain and operate an efficient, reliable network.

Scope of activities

L&D provides centralised coordination and delivery of the technical, regulatory and professional development needs for Ausgrid's employees and compulsory training related to network access for contractors who work on the network. Learning & Development also controls the four technical development programs: Apprentices, Engineering Officer Traineeships, Electrical Engineering Cadetships and the Engineering Graduate program.

Requirement for activities

We are required to undertake these activities to meet:

- Regulatory requirements for worker safety, in particular currency of skills
- Reliability standards by ensuring our workers can correctly execute standard procedures that underpin network performance
- Development of sufficient skilled workers for Ausgrid's current and mid term future requirements to safely build, maintain and operate the network
- Compliance with industry technical and safety standards for workforce skills
- Support the delivery of the capital and maintenance schedules
- Risk mitigation: Qualified Electricity Supply Industry workers remain a skills shortage nationally resulting in only limited potential for external recruitment of skilled workers.

Operational constraints

The organisation faces the following operational constraints in delivery these services:

- Reduced numbers of development program participants and the geographical diversity will result in sub-optimal delivery (e.g. class sizes) in some cases
- The relationship between a reducing workforce size and reducing Learning & Development size is non-linear due to fixed overheads and limitations on integer numbers of specialist trainers.
- While the overall volume of learners is decreasing, the per-worker net demand for training is increasing as new regulations and standards are introduced.

Section 1: Outcomes last period

During the 2009-14 period, Ausgrid spent \$160.283 on Learning and Development opex to deliver its objectives.

1.1 Circumstances during 2009-14 period

The 2010-14 forecast was based on a rapidly increasing demand for skilled workers to meet the forecast growth in capital projects. The actual number of apprentices recruited and trained over the period was less than 70% of the forecast due primarily to the unexpected reduction in demand for electricity resulting in a significant decrease in capital projects and in turn, skilled workers.

Ausgrid's Learning & Development function also undertook a significant efficiency project during the period resulting in more efficient management practices, trainer utilisation and cost control.

1.2 Opex outcomes during the 2009-14 period

During the period, Ausgrid incurred \$160.283 million of opex relation to Learning and Development as shown in the below table:

\$M (nominal)	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Operating expenditure	\$32.092	\$34.981	\$32.124	\$29.939	\$31.148	\$160.283
Allowance	\$41.116	\$43.450	\$46.218	\$47.813	\$48.896	\$227.494
Variance to Allowance	-\$9.024	-\$8.469	-\$14.095	-\$17.874	-\$17.748	-\$67.211

1.3 Variations to allowance

During the 2009-14 period opex for this category is estimated to have underspent the allowance by \$67m. The main driver for this variance was the significant reduction in recruitment and training of apprentices compared to the forecast. In addition to this other key reasons for the variations were:

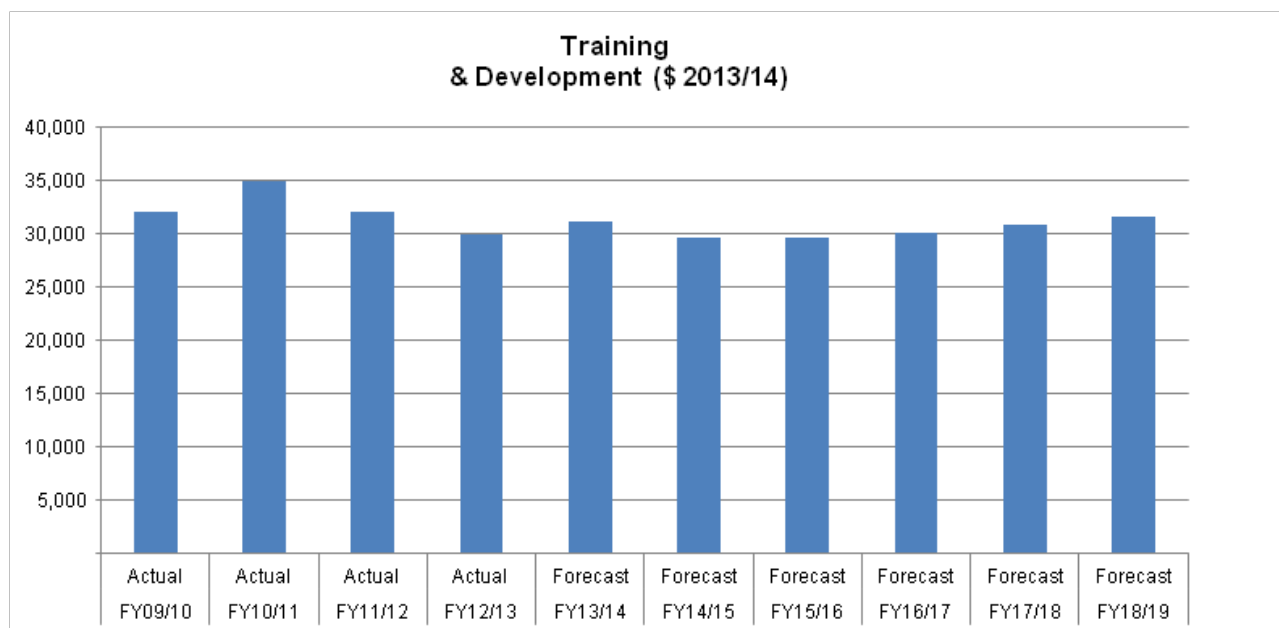
- Increased efficiency of delivery through more efficient scheduling of trainers (increasing utilisation)
- Consolidation of training facilities in Sydney to a new purpose-built facility resulting in greater economies of scale

Section 5 of our proposal provides further information on how these initiatives have resulted in a lower proposed allowance for the 2014-19 period.

Section 2: 2014-19 Learning & Development Strategy

Our focus for the 2014-19 period is to ensure Ausgrid has appropriately skilled workers to build and maintain the future network.

The purpose of this section is to identify the key circumstances driving Ausgrid's Learning & Development opex in the 2014-19 period. At a high level, it can be seen that the forecast for the period is below the opex from the 2009-14 period:



A key reason for this trend is that we have further reduced the apprentice intake in line with the projected reductions in capital work which will realise savings from the associated reduction in trainers.

The focus of our opex strategy is to maintain compliance and to continue to support network activities. At the same time we have sought to minimise price pressures to the full extent possible by investigating avenues of efficiency both in scope and in delivery of the forecast activity. These issues are discussed below.

2.1 Key circumstances during 2014-19 period

During the 2014-19 period it is expected that there will continue to be a reduced intake of approximately 40 apprentices per annum and that the overall workforce size will decrease slightly, further reducing year on year demand for training. These savings will be partially offset by further increases in demand for training required for regulatory compliance, in particular safety e.g. the new, annual asbestos training courses.

The forecast cost includes reductions both in trainers and in supervision, management and support of trainers as demand is reduced. The reductions have been calculated using safe supervision ratios in line with industry standards for the trades and learning stages of Ausgrid's learners.

The overall volume of mandatory training required continues to increase as regulations are introduced requiring additional compliance.

2.2 Key circumstances during 2014-19 period

Reduced apprentice intake

Workforce planning and the need to maintain a minimal functioning training program to ensure future capability has led to a forecast of 40 apprentices per year for the next few years. This reduction is partly offset by Ausgrid now taking on the training of 20 first year apprentices per year on behalf of Endeavour Energy.

Increases in compliance training

The overall volume of mandatory training required continues to increase as regulations are introduced requiring additional compliance. At the start of the 2014-2019 period Ausgrid will be training new annual courses in asbestos safety and

disconnection / reconnection training in line with industry standards. The trend over the last 20 years is that additional compliance requirements will continue to emerge throughout the period. To reduce the impact of these, Ausgrid has developed a strong blended learning capability which is serving to reduce cost both in Learning & Development and in the broader field workforce as less time is required off the job.

2.3 Key circumstances during 2014-19 period

As a result of these circumstances and drivers the following strategies have been developed:

- Recruit the minimum number of apprentices in the predicted range of future requirements to reduce the risk of an oversupply of skilled workers at the conclusion of their training program.
- Monitor the utilisation of trainers and increase flexibility (fewer specialised trainers) to increase overall efficiency
- Increase collaboration with industry partners to reduce duplication of effort, for example in the development of resources used to attain common learning outcomes, for example we provide training services to other DNSPs (e.g. Endeavour)
- Increase the use of technology in training delivery to reduce the amount of face to face time and the cost of travel for both learners and trainers compared to traditional delivery.

2.4 Key circumstances during 2014-19 period

There are no new capital investments planned for Learning and Development in this period other than minor property projects which will be dealt with centrally by Property and Logistics.

2.5 Key circumstances during 2014-19 period

During the 2014-19 period, the following change factors in activity has been incorporated into the forecast:

- Reduction in apprentices
- Replacement of cadetship program with an engineering scholarship program
- Technical and Regulatory workforce reduction resulting in a commensurate reduction in training demand

The rationale behind each of these change factors is contained in Appendix A.

2.6 Key circumstances during 2014-19 period

Planning for the centralised management of Learning & Development as part of the industry reform project is approximately 12 months behind other areas in the business. As a result, potential areas of NERP savings have been identified but not yet quantified or realised. The realisation of savings in this area is likely to coincide with the start of the 2014-19 regulatory period and these savings will be in addition to the savings underpinning this Opex planning.

Specifically:

- Ausgrid and Endeavour Energy will commence the joint training of Sydney-based apprentices in 2014.
- Curriculum development will be carried out by a virtual team across the Networks NSW businesses to avoid duplication of effort and ensure the implementation of industry best practice.
- Program governance for all development programs will be centralised, drawing on the best practices of the three businesses to create a common approach.
- Compliance costs will be reduced by migration towards common procedures, systems and potential, the Registered Training Organisation (RTO) status.
- Further savings may be realised in additional consolidation of workgroups and/or facilities across the three Networks NSW businesses.

Section 3: Forecast Method

We have relied on a base year approach in forecasting opex for the 2014-19 period.

The purpose of this section is to provide an overview of the process we have used to derive the total opex forecast for Learning & Development. In doing so, we have taken into account the business as usual operations carried forward from the 2010-14 period and the circumstances in the 2015-19 period as described in Section 2.

We have supplemented the information with detailed appendices set out in Appendix A to this overview. This includes specific data and analysis relating to our forecast processes, and derivation of key inputs such as cost escalators and volume drivers.

3.1 General approach

Ausgrid has developed a separate plan for Learning & Development activities. The plans have largely relied on high level models rather than detailed bottom up forecasting. Our forecasting methods across the plans are based on robust assumptions. Synergies with other plans such as capital programs are considered and are accounted for at a high level. The impact of material change factors has also been incorporated in the forecast.

A summary of our general method is set out below, with further information provided in supporting information that sets out the models in more detail.

3.2 Model approach

Ausgrid's BAU Learning & Development forecast has been based on a base year approach. This approach has taken FY 12/13 and applied known future change factors.

The detailed forecast model calculations can be found in Appendix A.

3.3 Key assumptions

Our forecast methods are based on consistent and robust assumptions of the future. The key assumptions include:

- Key activity drivers
 - The need to provide the right number of appropriately skilled workers to build and maintain Ausgrid's network now and in the future.
 - Compliance with regulations, in particularly with regard to worker safety.
- Cost reduction factors
 - Reduction in apprentice numbers
 - Overall Workforce reduction
 - Conversion of the cadetship to a scholarship

3.4 Impact of change factors

As a consequence of the circumstances resulting in a change factor in underlying business operations, a bottom up approach has been adopted in calculating the incremental costs.

- Apprentice Training

The cost savings have been calculated using a projected intake of 40 Ausgrid apprentices and 20 Endeavour Energy apprentices (first year only) for each year of the regulatory period. As these smaller intakes filter through the four years of the apprenticeship, a reduction in the number of trainers and supervisors required is realised. This has been calculated using industry standard supervision ratios and the detail of how many trainer / supervisor positions can be saved in each year of the determination is included in Appendix A.

- Cadetship to Scholarship conversion

This incremental change has been calculated by determining the cost per head of the new scholarship program, assuming an annual intake of five scholars and realising the difference between this cost and the year of current final year cadets, as Learning and Development pays the wages of cadets/scholars except during their fourth year (of a five year program) when they join the graduate program. This calculation is shown in Appendix A.

- Overall reduction in field workforce

Demand for post trade technical training and the regulatory training is roughly proportional to workforce size. As a result, with a projected decrease in the overall field workforce there will be some savings realised in the reduction of trainers required to service this training demand over the regulatory period. This calculation is shown in Appendix A.

- Organisational Development

As part of the Network Reform Project, centralised management of Organisational Development (OD)¹ is being established. In 2012/13, the base year used for the Opex cost projection, Ausgrid has carried out approximately 50% of the development in this area compared to previous years, primarily due to a temporary suspension in programs while the new model and common approaches across NSW were being developed. As a result, an increase in cost compared to the 2012/13 year has been included for each year of the determination. The value takes the total OD effort to \$3m per annum and will allow the implementation of centralised Organisational Development initiatives for Ausgrid's 5300 employees.

¹ Organisational Development (OD) primarily look after leadership development training.

Section 4: Forecast Outcomes

We have forecast \$151.853 million (real FY13/14) of opex for Learning & Development.

The purpose of this section is to provide a summary of the total opex proposed for demand related distribution opex.

4.1 Summary of opex

In total, the opex for Learning & Development related expenditure is \$151.853 million:

Real \$ 13/14 (millions)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Labour	23.456	23.436	23.823	24.516	25.224	120.455
Materials	0.796	0.805	0.818	0.832	0.848	4.099
Contracted Services	2.092	2.114	2.149	2.187	2.227	10.769
Labour Hire	1.312	1.312	1.312	1.312	1.312	6.558
Other	1.995	1.995	1.995	1.995	1.995	9.973
Total	29.651	29.661	30.096	30.841	31.604	151.853