

E2E - Stage 2 options analysis (project initiation)

R24_IES_S_FC_FASSC_Depot Optimisations North West Coast

❖ For work being proposed for inclusion into the capital works program.

Project name:	Depot Optimisations North West Coast
Department:	Finance
Investment Type:	Non-Network
Investment Category:	Non-Network - Facilities
Functional Area(s):	FASSC
Project ZoNe location:	Reset24 - All Documents (tasnetworks.com.au)
Document Number:	R0002017547
Needs Item Reference:	Not Applicable
Regulatory Investment Test Required?	No
Version Number:	0.1
Date:	1/10/2021



Preferred Option:					
Level 1 Estimate +/- 30 per cent (preferred option – base dollars):				\$7,500,000	
Expenditure profile	FY25	FY26	FY27	FY28	FY29
Capex	\$500,000	\$5,000,000	\$2,000,000		
Opex					



Sign-offs (in support of the recommended option)			
Works Initiator:		Date	1/09/2021
Leader: (Endorsement)		Date	02/11/2022
Leader or General manager noting delegation levels. (Approval) ¹	<hr/>	Date	03.11.2022

¹ Approval based on delegation level.

❖ denotes mandatory field

1. RELATED DOCUMENTS

Description	URL
Needs Form	NA
Estimate	
NPV	

2. OVERVIEW

2.1 APPROVAL GATE STATUS



Approval Gate	Approver Title	Approver Name	Date
Gate 1 – Needs			
Gate 2 – Option	This project seeks OPTIONS APPROVAL to proceed		

In line with the Gated Investment Framework this Project seeks Gate 2 Option approval to proceed to budget and financial approvals. This IES presents economic and risk assessments for each option considered, together with recommendation of a preferred option to address the business need.

2.2 BACKGROUND

TasNetworks owns and operates 4 sites along the North West Coast of Tasmania. Smithton and Deloraine are smaller remote style depots with offices, store and vehicle buildings along with yard storages. Burnie and Devonport facilities are larger sites with more team members based from each location, and larger material storage areas. All sites have teams based at the depots in order to respond to faults, repairs and maintenance works within the necessary timeframes that can achieve TasNetworks' service performance objectives. The majority of team members at these sites are from Operations & Customer Service Delivery (OCSD), whilst there are a small number of support team members from other teams.

The Smithton depot is the current base for 5 team members, 4 trucks, 1 EWP and a store/yard. The Burnie depot is the current base for 20 team members, 5 trucks, 2 EWP and a store/yard. The Devonport depot is the current base for 40 WSD team members, including P&C and Telco, 5 trucks, 2 EWP and a store/yard. The Deloraine depot has recently been upgraded to support the North West Transmission Development, however the store and yard are still available for emergency spares.

A number of improvements to increase efficiency in how we deliver our work are expected to result out of the Transformation program. These include optimizing our Supply Chain & Fleet as well as streamlining our works programming. A full review of response times and optimal facility requirements and design is anticipated to occur through this process including required changes across these sites to build business efficiencies across facilities, fleet and field services.

2.3 PROBLEM DEFINITION

TasNetworks has an objective to maintain regional facilities to provide effective response times for faults, efficient delivery of regional work and support Tasmanian regional communities. However the current NW facilities are in need of investments to bring them up a required standard. This coupled with Transformation improvements will provide the strategic and long term requirements for the North West Facilities and allow for clear prioritisation of investments to maximise returns.

It is envisaged that there will be a potential to consolidate functions / activities across sites which will create efficiencies from a works and service delivery point of view and also by reducing facilities expenses.

Customers would be engaged at the appropriate time for this project, if any consolidation was to take place, TasNetworks EA covers a consultation period and how to engage with team members who may be affected. This would take place in conjunction with People Team. There would also need to be a customer engagement piece of work completed to understand the requirements of the NW Coast major businesses to ensure TasNetworks could meet customer requirements into the future. This information would ultimately inform what the best mix of sites in order to respond to issues on the network.

3. CUSTOMER NEEDS AND IMPACT

Customer consultation will form a large part of the review process, TasNetworks will need to understand any effects on large commercial businesses within this area should response time's change due to changes in depot locations. The area is heavily farmed so that association will be given the opportunity for consultation along with smaller stakeholders. Internal customers would also form part of this review process and a full change management process would be undertaken via the People Team.

4. CORPORATE ALIGNMENT❖

4.1 BUSINESS PERFORMANCE OBJECTIVES

This project will help achieve the customer and business performance objectives in TasNetworks' Corporate Plan, and as shown in Table 2.

Table 1 Performance objectives relevant to this project.

Performance category	Performance measure	Investment impact on performance
Safety and wellbeing	Significant incidents	Uplift and Optimisation of depots to ensure safety of employees and public
Safety and wellbeing	Reportable incidents	Uplift and Optimisation of depots to ensure safety of employees and public
Our people	Employee engagement	Uplift and Optimisation of depots to ensure safety of employees in fit for purpose facilities.
Our business - Sustained cost management	Capital expenditure	Uplift and Optimisation of depots to ensure best cost outcome for the future
Our business - Sustained cost management	Operating expenditure	Uplift and Optimisation of depots to ensure best cost outcome for the future
Our business - Network service	Service incentive bonuses earned - transmission and distribution	Uplift and Optimisation of depots to ensure network reliability is appropriate

4.2 RISK OBJECTIVES

This project will assist in mitigating key business risks identified in TasNetworks' Corporate Plan. Table 3 presents all business risks, identifying those that would be positively impacted by the proposed project.

A detailed assessment of the risks mitigated by the project is presented in Section 5.3.

Table 2 Business risks mitigated by this project

Key Business Risks	Describe the specific risk(s) to which the business is currently exposed, for mitigation through the proposed project, and how it aligns with the Key Business Risk(s)
Sustainable and Predictable Pricing	Optimisation to ensure best financial outcome for business
Widespread Power Disruption	Optimisation to ensure network requirements are able to be met appropriately
Loss of Major Industrial	Optimisation to ensure network requirements are able to be met appropriately
Customer Focus	Optimisation to ensure network requirements are able to be met appropriately

4.3 STRATEGIC OBJECTIVES

Table 4 summarises strategic objectives that will be addressed by this project.

Table 3 Strategic objectives relevant to this project

Strategic Document	Strategic Objective	How the proposed investment will address the strategic goal
TasNetworks Customer Service Strategy	Achievement of the Customer Experience Goal.	Optimisation of depot locations to deliver a high quality customer experience.
Workforce Strategy (in development)	Workforce requirements aligned with customer service strategy.	Ensure depot facilities are fit for purpose.

PROJECT OBJECTIVES❖

Allowance for the optimisation of the mix of North West Coast sites to enable our network obligations to be met whilst making efficiencies where possible. This could see a rationalisation of sites which accommodate team members or a relocation of sites to better meet customers' requirements.

E2E - Stage 2 options analysis (project initiation)

5. OPTIONS ANALYSIS❖

OPTIONS CONSIDERED AND ECONOMIC ANALYSIS

Table 4 lists the options considered, the outcome of the economic analysis for each option, and the option being proposed for endorsement in this Investment Evaluation Summary. Details of the NPV analysis are included in Appendix A1.

Table 4 Options considered

Option No.	Option summary	Direct cost (\$m)	NPV (\$m)	Preferred option (yes/no)	Reason for selection/rejection
0	Do nothing	\$0	(8,027,719)	no	Ongoing inefficiencies will remain. Impact ability to achieve Transformational objectives for Supply Chain / work delivery and the associated benefits.
1	Depot Optimisations on NW Coast	\$7,500,000	(4,719,659)	Yes	To realise benefits as soon as practical and rationalize sites as soon as practical
2	Delay optimisations until next period – not used in NPV ²	\$0	N/A	No	Ongoing inefficiencies will remain for a longer period and some funds will be required for maintenance during the R24 period

² The economic analysis of option 2 aligns with option 0, as TasNetworks will ‘do nothing’ during the 2024-2029 regulatory control period

E2E - Stage 2 options analysis (project initiation)

5.1.1 OPTION 0: DO NOTHING

This option includes:

5.1.2 OPTION 1: DEPOT OPTIMISATIONS

This option includes: This option would see depots optimised as necessary following customer and network reviews. This could see optimisation in the mix of functions across depots, consolidation of depots or relocation to another site.

5.1.3 OPTION 2: DELAY OPTIMISATIONS UNTIL NEXT PERIOD

This option includes: This option would see the optimisation delayed until the next regulatory period to delay the capital spending of funds.

5.1.4 SENSITIVITY ANALYSIS

Not Applicable

5.2 OPTION EXPENDITURE PROFILES

The following tables show the expenditure profile for each investment option.

Option 0 – Do nothing Estimate (in nominal dollars)					
Option 0 expenditure profile	FY25	FY26	FY27	FY28	FY29
Capex	\$0	\$0	\$0	\$0	\$0
Opex	\$0	\$0	\$0	\$0	\$0

Option 1 – Depot Optimisations Estimate (in nominal dollars) \$8,820,000					
Option 1 expenditure profile	FY25	FY26	FY27	FY28	FY29
Capex	\$500,000	\$5,000,000	\$2,000,000	\$0	\$0
Opex	\$0	\$0	\$0	\$0	\$0

Option 2 – Delay optimisations until next period Estimate (in nominal dollars) \$					
Option 2 expenditure profile	FY25	FY26	FY27	FY28	FY29
Capex	\$0	\$0	\$0	\$0	\$0

Opex	\$0	\$0	\$0	\$0	\$0
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5.3 RISK MITIGATION

The matrix presented in Table 6 compares the options, showing how each assists TasNetworks in mitigating its key business risks (previously identified in section 4.3 “Risk objectives”).

Appendix B provides supporting details of the risk assessment outcomes presented in Table 6.

Table 6 Risk matrix summary

Risk Drivers	Current risk (Corporate Plan)	Option 0 – Do nothing Unmitigated risk	Option 1 – Depot Optimisations Net risk	Option 2 – Delay optimisations until next period Net risk
Death or Injury (Employee)	High	High	Low	High
Death or Injury (Public)	High	High	Low	High
Customer Focus	Medium	Medium	Low	Medium
Cyber Security	High	High	Low	High

5.4 QUANTITATIVE RISK ANALYSIS

Not Applicable

5.5 BENCHMARKING

Not Applicable

5.6 PREFERRED OPTION

The preferred option is to undertake depot optimisations on the North West Coast once reviews and network considerations have been completed to ensure we are still able to meet any compliance obligations to run the network. This optimisation may include the rationalisation of some depots, consolidation at one site or relocation to a Greenfield site. The final outcome will be determined based on best outcome for TasNetworks business and team member outcomes.

Both the do nothing and delay optimisation options result in no change to TasNetworks’ risk profile, resulting in suboptimal outcomes for death or personal injury risks to both the public and employees. This is in addition to the increased risk profile for both cyber security and customer focus.

6. INVESTMENT TIMING ❖

Planning for this project will start in early 2024 with construction likely in 2026/2027

7. EXPECTED OUTCOMES AND BENEFITS

The benefits to TasNetworks from implementation of the preferred option will be:

- Depot optimisation will ensure our networks and customers still receive the appropriate level of service, whilst gaining efficiencies within our business.
- The optimisation may see reduced functionality at some sites, whilst consolidating at others, therefore creating efficiencies in facilities and fleet operating costs.
- The optimisation may offer an opportunity to improve the cultural aspects of the teams by bringing remote depot team members together and may also create more of a central location along the Coast.
- Enable Transformational benefits associated with Supply Chain / Work Delivery initiatives.

8. ASSUMPTIONS ❖

It is assumed that the NW facilities will remain as is, until reviews are completed; that nothing will change in the short term until this project is enacted.

9. REGULATORY INVESTMENT TEST

Not Applicable

10. RECOMMENDATION ❖

It is recommended that the preferred option is approved and progressed as it best satisfies the customer and business needs.

APPENDIX A – ECONOMIC ANALYSIS

The assumptions used in the economic analysis are as follows:

- NPV analysis is carried out for a 20 year period.
- Weighted Average cost of Capital (WACC) of 2.79 per cent is used.

The results of the Economic Analysis are provided below:

<u>ANALYSIS OF OPTIONS</u>		Option 0	Option 1
		Status Quo - Do Nothing	Depot Optimisation
CASHFLOW	<i>flow</i>		
Capital Expenditure	Cash outflow	-	(8,820,000)
Operational Expenditure	Cash outflow	(10,300,000)	(5,700,000)
Operational Cost savings	Cash Inflow	-	-
Total Expenditure	Cash outflow	(10,300,000)	(14,520,000)
Revenue	Cash Inflow	-	7,000,000
Net Cashflow	Net cash	(10,300,000)	(7,520,000)
CASHFLOW NPV		(8,027,719)	(6,178,440)
PLUS NON CASH			
Non Cash Benefits	Non cash in	-	1,900,000
Non Cash Costs	Non cash out	-	-
Net Value	Net Value	(10,300,000)	(5,620,000)
COST BENEFIT NPV		(8,027,719)	(4,719,659)
RANKING		2	1

APPENDIX B – KEY BUSINESS RISK COMPARISON

The project options each have a different impact on key business risks. The table below provides a qualitative summary of the impacts of each option on key business risks, with consideration for the risk approach and risk management process outlined in TasNetworks’ Risk Management Framework.

Key business risks	Current risk as per Corporate Plan			Option 0 Do Nothing				Option 1 Depot Optimisations				Option 2 Delay optimisations until next period			
	Likelihood	Consequence	Risk	Likelihood	Consequence	Risk	How does this option mitigate current situation risk?	Likelihood	Consequence	Risk	How does this option mitigate current situation risk?	Likelihood	Consequence	Risk	How does this option mitigate current situation risk?
Death or Injury (Employee)	Possible	Major	High	Possible	Major	High	Risk is not changed from current situation	Unlikely	Minor	Low	Depot is fit for purpose, modern safety features and efficient flow of works/traffic	Possible	Major	High	Risk is not changed from current situation
Death or Injury (Public)	Possible	Severe	High	Possible	Severe	High	Risk is not changed from current situation	Unlikely	Minor	Low	Depot is fit for purpose and members of public cannot access operational areas easily	Possible	Severe	High	Risk is not changed from current situation
Customer Focus	Unlikely	Moderate	Medium	Unlikely	Moderate	Medium	Risk is not changed from current situation	Unlikely	Negligible	Medium	Depot is fit for purpose, modern safety features and efficient flow of works/traffic	Unlikely	Moderate	Medium	Risk is not changed from current situation
Cyber Security	Likely	Major	High	Likely	Major	High	Risk is not changed from current situation	Unlikely	Negligible	Low	Depot is fit for purpose and fully secure with modern security functionality	Likely	Major	High	Risk is not changed from current situation