PowerWater

Program Business Need Identification

Power and Water Corporation

CONTROLLED DOCUMENT

PRD33455

Vehicle Fleet Program

Proposed:

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Date: /02/2018

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Date: 26/02/2018

Refer to D2018/12553

Finance
Date: 06/02/2018.

Refer to D2018/72310 & D2018/87745

PMO QA
Date: 26/02/2018.

1 Program Summary

Program Name:	Vehicle Fleet Program		
Program No:	PRD33455	**SAP Ref:**	
Financial Year Commencement:	2019-20		
Business Unit:	Power Networks		
Program Owner (GM):	Djuna Pollard	**Phone No:**	08 8985 8431
Contact Officer:	Fleur Crowe	**Phone No:**	08 8924 5207
Date of Submission:	23/02/2018	**File Ref No:**	D2017/368518
Submission Number:	Sub	**Priority Score:**	/100
Primary Driver:	Compliance	**Secondary Driver:**	Asset Renewal
Program Classification:	Capital Program of Works		

2 Recommendation

2.1 MAJOR PROJECT >$1M OR PROGRAM

It is recommended that IRC note the proposed five year fleet management program for an estimated budget of $30.0 million ($2017-18), and approve the inclusion of this Program into the SCI for this amount, with a corresponding completion date of June 2024.

This program is a continuing program from the current regulatory control period. However, as a consequence of changes to Australian Accounting Standard AASB 16 Leases, Power and Water Corporation's (PWC) vehicle fleet leased from NT Fleet will be recognised as on the balance sheet from 1 July 2019.

The forecast will be included in the 2019-24 Regulatory Proposal to the Australian Energy Regulator (AER).

3 Description of Issues

3.1 Background

PWC's vehicle fleet plays a vital part in providing distribution services. The service vehicle fleet, comprising light, heavy and specialist vehicles enables field crews to access the distribution network to maintain the assets, repair infrastructure at the end of its useful service life, respond to emergency situations and construct new infrastructure when required. The administrative pool vehicles enable support staff to travel between the various locations where PWC provides services.

As a government owned corporation, PWC is considered an extension of Government for the purposes of procurement. Consequently, PWC is encouraged (through a Government direction dated 1992) to procure its standard vehicle fleet from NT Fleet through an operating leasing arrangement with NT Fleet.

NT Fleet is responsible for the management of the light and heavy vehicle fleet for the various arms of the NT Government including PWC, with the exception of Northern Territory Police, Fire and Emergency Services. NT Fleet is responsible for the management, purchase, disposal and maintenance of the fleet.

NT fleet hold all records of PWC fleet and undertake all decisions relating to the purchase, maintenance and disposal of PWC fleet. Accordingly, PWC does not have a fleet management system in place, and is not provided with reasonable access to records of its Fleet assets beyond that required for payment of vehicle leases, fuel and regular maintenance.[1]

3.2 Current and Emerging Issues

The proposed program is a continuation of the existing fleet management arrangements. PWC is in the process of developing a comprehensive Fleet Management Strategy that will include:

- Detailed assessment of PWC fleet requirements, specifically focusing on utilisation and uniformity of fleet;
- Comprehensive market research for alternative providers or partnerships; and
- Renegotiation on commercial terms and performance metrics with NT Fleet.

3.3 Project Drivers

The primary driver of this program is to recognise the capex associated with the management of PWC fleet as a consequence of a change to Australian Accounting Standard AASB 16 Leases, which states that operating leases should be treated as capital expenditure from 1 July 2019. Accordingly, the acquisition of the vehicle fleet falls within the PWC capital governance framework.

[1] NT Fleet considers that any data generated through the relationship with PWC belongs to NT Fleet and is commercial in confidence.

This forecast applies the new Australian Accounting Standard AASB 16 Leases to take effect on 1 July 2019. The most significant impact of this new standard is PWC must account for both operating and finance leases on the balance sheet, recognising both an asset for the right to use the leased asset and an obligation to make lease payment over the lease term.

Consequently, when the Accounting Standard is applied, PWC will recognise a large capex opening balance as at 1 July 2019 of $12.4M. Then ongoing, for each new or replacement lease entered into, the whole lease cost is recognised as capex as the present value of future lease payments. The value of new or replacement lease is $17.6M over the regulatory contrrol period ($3.5M per year on average).

The demand for fleet is expected to remain constant over the regulatory control period and is based on the following assumptions:

- PWC field crews, support staff and management use the vehicle fleet to transport themselves and equipment to all parts of the network to undertake maintenance, project management, safety and network planning of the distribution network. These activities are central to the on-going maintenance of distribution network reliability to the standard required under jurisdictional obligations.
- The size of the vehicle fleet is commensurate with the size of the works program and level of services that PWC must provide. Including the need to have specialised vehicles located in regional locations, as private hire (short term lease) of such equipment isn't possible.
- A reliable, well-maintained fleet is essential for the safety of PWC employees. The harsh tropical environment that is Darwin-Katherine, and the harsh desert environment that is Alice Springs and Tennant Creek, present additional health and safety risks in the event of vehicle failure.

4 Potential Solution

Option 1: Do Nothing

This option is not technically feasible. This program is a continuing program from the current period, reflecting the essential role of PWC fleet in the provision of distribution services. The change to the accounting standard means that the vehicle operating leases must become capex.

Option 2: Continue procurement of vehicle fleet from NT Fleet, treat as capex

This option is a continuation of the status quo, recognising the change in accounting treatment only. The leased value of the fleet would become an asset in the Regulatory Asset Base (RAB), which will contribute to the revenue building blocks for the regulated distribution business.

Option 3: Change procurement of vehicle fleet to an alternate supplier, treat as capex

This option involves PWC procuring its vehicle fleet from a supplier other than NT Fleet. The leased value of the fleet would become an asset in the Regulatory Asset Base, which will contribute to the revenue building blocks for the regulated distribution business.

Option 4: PWC own its own vehicle fleet

PWC would own the whole vehicle fleet. This option involves transitioning from a wholly leased fleet over a long period of time to a wholly owned fleet. In addition, the value of the fleet would become an asset in the Regulatory Asset Base, which will contribute to the revenue building blocks for the regulated distribution business.

Option 5: Combination of Owned and Leased Vehicles

This option is a combination of Options 3 and 4, choosing a mix of ownership and leasing that provides the most beneficial outcome to PWC and its customers.

4.1 Preferred Option

The preferred option for this BNI is Option 2. It is understood that as a NT Government Owned Corporation (GOC) PWC is required to use NT Fleet services to procure its operational vehicle fleet. Whilst PWC is currently reviewing the enforceability of this requirement, for the purposes of developing the capital forecast, the requirement to utilise NT Fleet eliminates further consideration of Options 3, 4 and 5 as technically unfeasible.

Following completion of the PWC Fleet Management Strategy, an alternate option may be considered as part of delivering improvements to the management of vehicle fleet.

4.2 Non-network alternatives

Not applicable. The expenditure is classified as “non-network expenditure”.

4.3 Capex/Opex substitution

As a consequence of changes to Australian Accounting Standard AASB 16 Leases, PWC’s vehicle fleet leased from NT Fleet will be capitalised from 1 July 2019. There is no discretion for capex/opex substitution.

4.4 Contingent Project

The expenditure does not meet the criteria for a contingent project as outlined in the Northern Territory National Electricity Rules, section 6.6A.1. It is a continuation of a business as usual program of works.

5 Strategic Alignment

This project aligns with the Corporation’s key result areas of operational performance and customer centricity, where the goals are to be an efficient provider of services and delivering on customers’ expectations.

The vehicle fleet is central to the delivery of the work program for the services of the regulated distribution business.

6 Timing Constraints

The provision of vehicle fleet is an ongoing program. This BNI aligns with the five year period commencing on 1 July 2019 to permit the on-going availability of the vehicle fleet.

7 Expected Benefits

Driver	Benefit	Measure
Asset Renewal	The vehicle fleet enables PWC to provide services to meet these drivers.	Suitable fleet of vehicles to enable Power Networks to provide distribution services Compliance to Australian Accounting Standard AASB16 Leases
Compliance		

8 Milestones

Investment Planning	Project Development	Project Commitment	Project Delivery	Review
01/2018	01/2018	07/2019	06/2024	07/2024

This BNI is for the on-going procurement of vehicles from NT Fleet for the provision of distribution services.

9 Key Stakeholders

Stakeholder	Responsibility
Executive General Manager Power Networks	Internal governance stakeholder, Power Networks capex
Group Manager Service Delivery Power Networks	Internal governance stakeholder, Power Networks capex
Business Manager Power Networks	Internal governance stakeholder, Power Networks capex
Senior Executive Manager Business Support	Governance, fleet services
NT Fleet	Service provider

10 Resource Requirements

Not applicable. This capex relates to the change in accounting treatment of vehicle leases from opex to capex.

11 Delivery Risk

There are no known delivery risks.

12 Financial Impacts

12.1Expenditure Forecasting Method

PWC will recognise a large capex opening balance as at 1 July 2019 when the Accounting Standard is applied, recognising the leased value of the fleet. Then ongoing, for each new or replacement lease entered into, the whole lease cost is recognised as capex as the present value of future lease payments.

The number of vehicles is expected to remain constant over the regulatory control period. At the end of a lease period, the vehicle is replaced with another of a similar type. For example, light vehicle would be replaced with light vehicle, and a heavy truck replaced with heavy truck. The replacement schedule is a condition of the leasing arrangements between PWC and NT Fleet.

PWC has assumed that the lease cost will remain constant in real terms for the duration of the regulatory control period. Given the relatively constant purchase price of vehicles, PWC consider this to reflect a prudent approach.

12.2Validation

PWC has assumed that the number of vehicles and the lease cost of those vehicles will remain constant in real terms for the duration of the forthcoming regulatory control period. PWC have commenced preliminary benchmarking analysis with like utilities (water and distribution) to compare leasing costs by vehicle types. Early analysis indicates historical leasing costs fall within the range experienced by like utilities. Further and more detailed analysis will occur through the PWC Fleet Management Strategy project.

12.3Capex Profile

The table below shows the forecast capex in $2017-18, excluding capitalised overheads and cost escalation.

Phase	2019-20 ($'000)	2020-21 ($'000)	2021-22 ($'000)	2022-23 ($'000)	2023-24 ($'000)	Total ($'000)
Investment Planning						
Project						

Phase	2019-20 ($'000)	2020-21 ($'000)	2021-22 ($'000)	2022-23 ($'000)	2023-24 ($'000)	Total ($'000)
Development						
Project Commitment						
Project Delivery	15,026	4,217	3,497	4,241	3,035	30,015
Review						
Total	15,026	4,217	3,497	4,241	3,035	30,015

12.4Opex Implications

There will be a corresponding step decrease in opex, consequential to the change of treatment of this expenditure from opex to capex. PWC current lease costs are approximately $3.6 million per annum (operating expenditure).

The expenditure included in this program has been excluded from PWC's operating expenditure base year for the 2019-24 Regulatory Proposal to the AER.

12.5Variance

None