Regulated Network Fleet Strategy

prepared for the 2024-29 regulatory period

PowerWater

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Executive Summary

Power and Water Corporation (Power and Water) is a Northern Territory Government-owned Corporation that is responsible for the provision of electricity, water and sewerage services across the Northern Territory, over an area of more than 1.3 million square kilometres. The three regulated networks in the Northern Territory that Power and Water is responsible for are:

- The northern network that services about 150,000 people and stretches from Darwin to the south of Katherine including Batchelor, Adelaide River, Pine Creek, Mataranka and Larrimah.
- The Tennant Creek network that services about 7,000 people in and around Tennant Creek.
- The southern network that services the Alice Springs area which is home to about 28,000 people.

As the Network Service Provider for the local electricity systems in the Northern Territory, Power and Water has responsibility for planning, building, operating and maintaining safe, efficient, reliable and cost-effective electricity networks to transmit electricity between generators and consumers, supporting the growth of the Northern Territory economy. Power and Water's vision is:

A proud, trusted, modern multi-utility delivering value now and into the future.

Power and Water's primary obligation and focus is to plan, build, operate and maintain the electricity distribution network. Fleet are vital to support Power and Water's field and office-based operations. Within this context, Power and Water is accountable for ongoing safety, compliance, and management of the regulated business' fleet. The role of fleet management is to support the business both in the long-term as it negotiates a rapidly changing environment, and in the day-to-day operations of the business in the delivery of efficient, reliable, and safe network performance. The majority of our fleet is leased from NT Fleet.

This Fleet Strategy describes our approach, asset management plan and expenditure forecasts in relation to our fleet of vehicles required to deliver our regulated network services for the next regulatory period, including passenger and light commercial vehicles, heavy vehicles such as Elevated Work Platforms (EWP), cranes and trucks. This Fleet Strategy outlines the key challenges and opportunities that are faced by Power and Water's fleet for its regulated business including:

- Continuing to provide fit-for-purpose, safe and compliant vehicles to the business in a timely manner to enable the efficient and effective delivery of the business' strategic objectives and operational requirements.
- Ensuring ongoing compliance with the range of legislative and regulatory compliance obligations across the fleet lifecycle.
- Remaining up to date with new and emerging industry innovations and trends in fleet and vehicles to ensure optimum safety, and productivity of our staff.

The Power and Water network program of work is the key driver of fleet expenditure and has a material influence on the number and type of vehicles that are required to support the business. The different type of network investment also influences and drives the quantity and type of fleet assets required.

Another key consideration is the replacement approach and criteria based on a combination of age, kilometres and condition. Power and Water's electricity network in Northern Territory is vast and complex, with the network extending across difficult, harsh, and remote terrain and in demanding conditions. These conditions are considered when managing and maintaining the fleet, particularly in establishing and reviewing the replacement criteria.

Power and Water has considered the historical trend as well as expenditure drivers to develop a robust expenditure forecast for fleet to meet the ongoing operational and safety requirements of the regulated business. Power and Water proposes $12.4 million (real 2021/22) for fleet leases for the next regulatory control period, which is a reduction from the $20.5 million (real 2021/22) estimated to be incurred in the current regulatory control period.

1. Purpose and Scope

The purpose of this Regulated Network Fleet Strategy is to document Power and Water's fleet assets needs and asset management approach, considering safety, best practice industry standards, business priorities and cost efficiency. A related objective is to provide context for the procurement and management of an efficient fleet with a level of flexibility to balance safety, operational requirements, lifetime value and environmental considerations.

The aim of Power and Water's fleet management is to provide safe, fit for purpose, reliable and cost-effective operational fleet for its regulated activities, contributing to Power and Water's ability to deliver its vision of being "*A proud, trusted, modern multi-utility delivering value now and into the future."* This document provides the context for decisions regarding safety, procurement, maintenance, and management of our fleet and to provide for transparency and consistency.

The scope of this document is limited to Power and Water's regulated activities. It describes our asset management plan and expenditure program for the 2024-29 regulatory control period to meet Power and Water's strategic objectives and operational business requirements for the regulated electricity network.

Key challenges and opportunities for Power and Water's regulated fleet include:

- Continuing to provide fit-for-purpose, safe and compliant vehicles to the business in a timely manner.
- Ensuring ongoing compliance with the range of legislative and regulatory compliance obligations across the fleet management lifecycle.
- Remaining up to date with new and emerging industry innovations and employing the appropriate technologies into our fleet assets to ensure optimum safety, mobility, and productivity of our employees in the most-efficient manner.

2. Business Context

2.1 About Power and Water Corporation

Power and Water is a Northern Territory Government-owned Corporation operating under the Government Owned Corporations Act 2001. As a multi-utility, it provides a range of electricity, gas, system control, water, and sewerage services. These services are provided to urban, rural, regional, and remote communities and to a diversified demographic customer base.

The majority of our vehicles provide shared services, with costs allocated directly to our regulated network functions where appropriate, following which they are allocated to standard control services in accordance with our approved corporate cost allocation methodology (CAM).

2.2 Geographic and operating environment

Power and Water's fleet plays a vital part in providing distribution services. The 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 Power and Water provides regulated electricity services.

Our operating environment is dynamic, harsh, and unique. It presents substantial challenges, risks, and opportunities as we transition to the new operating model and become further influenced by the requirements of the NT National Electricity Rules and the Australian Energy Regulator (AER).

Our fleet of vehicles are used to carry out routine work on the network, to respond to network events, and to travel large distances between our office sites and depots. This unique operating environment is a significant factor in the maintenance and renewal of our vehicles and on the asset lives. For example, the battery life of our vehicles is much shorter compared to other networks due to the extremely high heat and humidity levels in the Northern Territory. Regular six-monthly servicing is required to ensure vehicles are maintained to harsh Northern Territory conditions.

2.3 Innovation and sustainability

In accordance with the Northern Territory Government Vehicle Policy, Power and Water pool and passenger vehicles are to be transitioned to electric vehicles (EVs) where appropriate and operational requirements continue to be met. EV suitability will be informed by usage, location, cost and business day-to-day needs.

As the uptake of EVs and hydrogen vehicles progresses, Power and Water, in conjunction with NT Fleet, will reassess the types and number of vehicles to ensure ongoing sustainability and fit-for-purpose use of its fleet. Power and Water recognises the importance of ensuring its fleet is sustainable and environmentally responsible, as well as to improve efficiencies whilst meeting operational needs. However, the Northern Territory's characteristics including long distances, a small and widely dispersed population and extreme climatic conditions, will present unique challenges for Power and Water and its transition of fleet to EVs.

Replacement of Power and Water's vehicles with EVs over time is a key element of the Northern Territory Government *Electric Vehicle Strategy* to increase the number of EVs in the Territory. However, some pool vehicles will not be suited to conversion to EVs, such as where usage is primarily in rural or remote locations, where access to charging infrastructure is limited, high kilometres are travelled or where costs are unjustifiably high. At this point in time, EV targets for the Power and Water have not been defined with

EV targets having only recently been defined for the broader Northern Territory Government (i.e., 20 vehicles per year over 10 years).

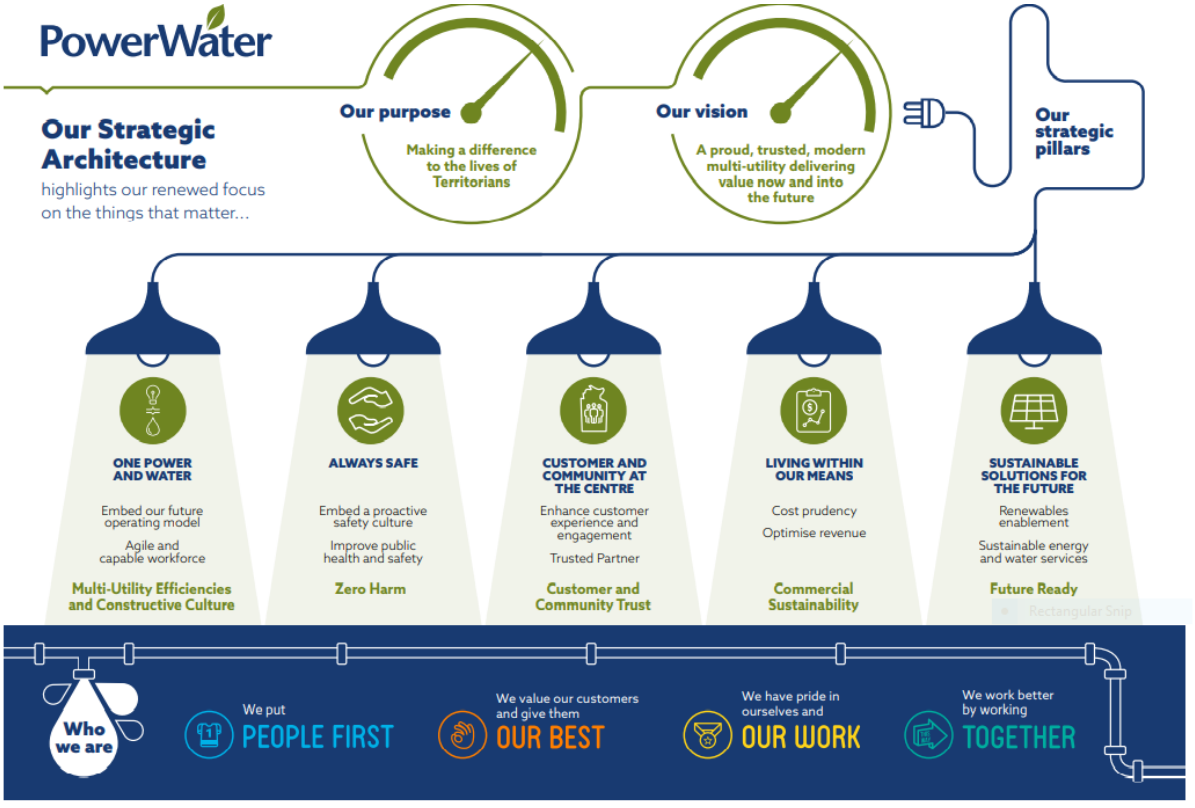
3. Strategy overview

3.1 Alignment to Corporate Strategy

As the essential service provider in the Northern Territory, our purpose is to make a difference to the lives of Territorians. We need to play our part in enabling the economic goals of the Northern Territory, together with progressing social issues such as decarbonisation.

Power and Water has experienced significant changes in its regulatory, economic, industry and social environment in the past five years and with this in mind, the organisation tested its strategic direction to ensure that it can continue to meet the changing needs of the business, its customers and the Northern Territory economy and market. Power and Water's strategic direction now has a more targeted focus designed to successfully position itself for the future.

Power and Water's Purpose and Vision links to the refreshed strategic pillars, key strategic focus areas and established values as outlined in Figure 2 below. *Figure 1 Strategic direction and architecture*



3.2 Fleet strategy objectives

This Fleet strategy is based on the objectives, performance and specifications of Power and Water's fleet and is designed to be customer-focused and fit-for-purpose. The Strategy will subsequently be used to inform forecasts for the regulatory control period and Power and Water's future asset portfolio.

Table 1 provides an overview of the alignment between this Fleet strategy and Power and Water's strategic pillars.

Table 1 Alignment between the strategic pillars and fleet strategy

Power and Water Strategic Pillar	What are we doing differently?	What does this mean for Fleet
One Power and Water 	Power and Water is committed to implementing its Operating Model and uplifting its culture to become fit for the future	To operate as one Power and Water enabled by a sustainable operating model. Power and Water's focus is on uplifting its culture, improving capabilities, and enhancing the way it works through a new organisational structure and embedding a continuous improvement mindset. This pillar will be reflected in Fleet management standard and ongoing fleet operations by ensuring fleet usage is shared cohesively across all elements of the business.
Always Safe 	Power and Water puts its people and customer safety first in all that it does	Safety to its people and all Territorians is a key priority and obligation for Power and Water. We will continue to deliver on safety targets and proactively improve our safety culture to better ensure safety for our people and for all Territorians. This includes managing fleet assets to ensure the safety of employees, contractors and the public.
Customer and Community at the Centre 	Power and Water places customers and community at the centre of all that we do	Customers and community are at the centre of the way we do business. Power and Water's focus is on improving customer experiences, cultivating relationships and being a trusted partner with our customers, community and stakeholders. For Fleet this means ensuring fleet is available to provide distribution services in a timely and efficient manner to our customers and ensuring fleet is sufficiently flexible to

		meet business and customer requirements.
Living Within Our Means 	Power and Water lives within its means to ensure commercial sustainability	Power and Water will continuously strengthen its financial management practices and optimise revenue generation. We must spend money wisely and practice prudent cost management. For Fleet this means: • achieving the lowest sustainable cost for fleet and fleet management • maintaining cost-effective and timely processes for procurement, maintenance, management and disposal of fleet • ensuring vehicles are replaced by following optimum replacement cycles, in line with replacement criteria.
Sustainable Solutions for the Future 	Power and Water has clarified the big shifts required based on the challenges it will face over the next 10 years	Power and Water proactively enables sustainable services in the Northern Territory for the future. For Fleet, this includes consideration of the purchase of fuel efficient and electric vehicles (EVs).

4. Governance and delivery

4.1 Fleet Services and Resourcing

NT Fleet is an external government agency, which is responsible for the overall management of the light and heavy vehicle fleet, and it liaises closely with Power and Water's Fleet Coordinator. NT Fleet was established on 1 July 1992, by Cabinet Decision No. 6785 of 16 April 1991, to centrally manage government fleet, including that of all government agencies with the exception of Police, Fire and Emergency Services. NT Fleet is responsible for the purchase, disposal, and maintenance of the fleet according to Power and Water's directions. NT Fleet procures vehicles based on specifications from Power and Water. While NT

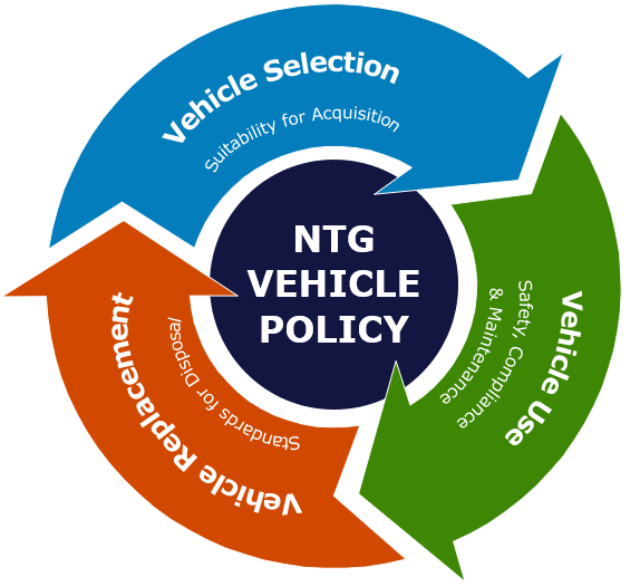
Fleet maintains records of fleet assets, these records are accessible to Power and Water and Power and Water monitors and checks these records periodically.

Power and Water leases and operates a range of fleet assets to enable delivery of the network program of work, including passenger and light commercial vehicles, heavy vehicles such as EWPs, cranes and line trucks. Responsibility for management of fleet and leasing arrangements rests with the Chief Procurement Officer and Chief Financial Officer.

4.2 Fleet management and governance

As outlined above, NT Fleet is responsible for the overall management of the light and heavy vehicle fleet including fleet replacement and vehicle acquisition according to the Northern Territory Government Vehicle Policy. NT Fleet manages the Power and Water's fleet through a lifecycle model approach as outlined below. This includes providing specialist advice about vehicles to meet Power and Water's requirements, acquisition, leasing, maintenance and disposal.

Figure 2 NT Fleet Lifecyle Model



Using its internal database, NT Fleet can determine when to initiate the vehicle replacement process depending on its replacement policies. When a vehicle replacement process is initiated, NT Fleet will send a request to Power and Water's Fleet Coordinator, who then liaises with the business unit.

4.3 Fleet customisation and standards

For specialised, field-based vehicles, a fit-for-purpose make and model of vehicle is selected along with the fit out, which is designed to best suit the relevant functional requirements, cognisant of the safety of staff and the Northern Territory environment.

To ensure the purchase of customised and specialised vehicles is conducted prudently and efficiently, Power and Water develops specifications in conjunction with key stakeholders and then holds initial discussions with vendors to understand the options available in the market. From vendor and market analysis, Power and Water provides specifications and budget to NT Fleet who then validate the market

analysis and review as a due diligence step. Modifications to the specification may be made as a result of this process, however the final design will comply with the Australian Design Rules for that particular vehicle and the Australian Standards for any specific equipment that will be attached to the body of the vehicle.

An example of where Power and Water has purchased customised fleet is the Alice Springs pole project, which required a crane truck for unusual tasks in confined spaces for pole fixture movements.

5. Asset management

5.1 Asset overview

Power and Water maintains a fleet lease cost model using data provided by NT Fleet to understand and forecast future lease costs and motor vehicle expenditure requirements. Table 2 provides an overview of the composition of our current fleet of vehicles as at 31 July 2022.

Table 2 Fleet Composition as at 31 July 2022

Fleet Asset Category	Fleet Units	Average km travelled per annum	Average Age (years)
Power Services			
Small Car	18	14,002	3.5
Light Commercial Vehicles	133	18,459	3.5
Elevated Work Platforms	18	16,279	5.0
Heavy Commercial	31	10,125	7.5
Total	**200**	**14,716**	**5.0**
Core Operations			
Small Car	13	13,730	3.0
Light Commercial Vehicles	14	12,501	3.5
Elevated Work Platforms	0	n/a	n/a
Heavy Commercial	0	n/a	n/a
Total	**27**	**13,116**	**3.25**

Figure 3 Fleet Asset Age Profile in Months (Power Services Fleet)

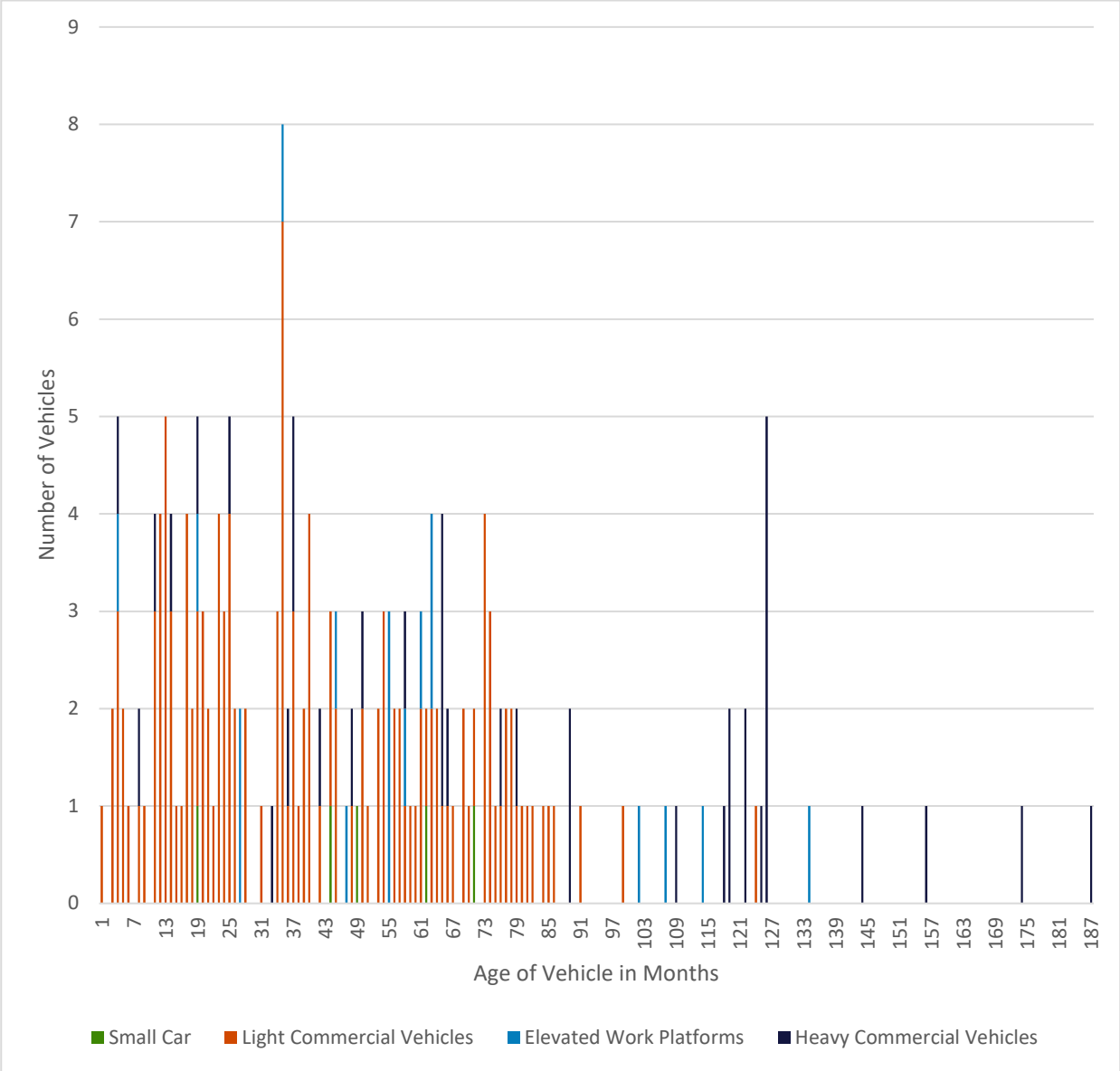


Figure 3 above shows the overall current condition and age of the fleet asset class. Generally, the age varies by fleet type and can fluctuate over time. Of note is the large proportion of heavy commercial vehicles that are aged over 108 months (9 years).

5.2 Fleet replacement criteria

As with our network assets, the condition of vehicles deteriorates with usage and time, and this reduces their functionality and performance, increases ongoing operating costs and, in some cases, creates safety risks to the community and the people operating them. Fleet replacement decisions are therefore made based on the condition of the vehicle and the relative cost effectiveness of disposing and replacing vehicles with new equivalents compared to retaining them in the fleet. The replacement criteria for fleet assets can be summarised as:

- Initial economical life expectancy

- Asset condition at end of life
- The asset's potential to be economically and safely extended
- Industry safety and technology improvements
- Regulatory requirements, manufacturer's recommendations, and Australian Standard constraints.

Australian Standards AS2550.11 state that all vehicle loading cranes must have a major inspection every ten years to assess their suitability for continued safe operation and then every five years after that. The practice of rebuilding and inspecting vehicle loading cranes and EWPs is usually cost prohibitive and therefore it is often more efficient to replace the vehicle and crane (and obtain a warranty) rather than conduct a full overhaul.

The following table outlines the replacement criteria and approach that is currently adopted by Power and Water and is proposed to continue in the next regulatory control period. Average asset life for small cars, light commercial vehicles and heavy commercial vehicles are estimated based on:

- Early return fees imposed by NT Fleet - these fees are paid when vehicles need to be replaced earlier than specified in the replacement criteria; however, Power and Water seldom retires a vehicle early and therefore rarely incurs these fees
- Waiting times for delivery of the new vehicle may take longer than the time specified by the replacement criteria, which is currently the case.

Power and Water's vehicle replacement criteria and asset lives has been compared against other networks, which reveals that Power and Water's criteria are commensurate with other similar sized or geographically isolated networks.

Table 3 Fleet replacement policy

Type of Vehicle	Replacement Criteria
Cars – sedan or smaller	4 years or 80,000kms
Light Commercial – 4x2	5 years or 125,000kms
Light Commercial – 4WD or Vans	5 years or 125,000kms
Elevated Work Platforms	10 years until replaced or refurbished
Crane	As required
Borers and Wire Winders	As required
Commercial Trucks	As required
Heavy Commercial	5 years or 125,000kms

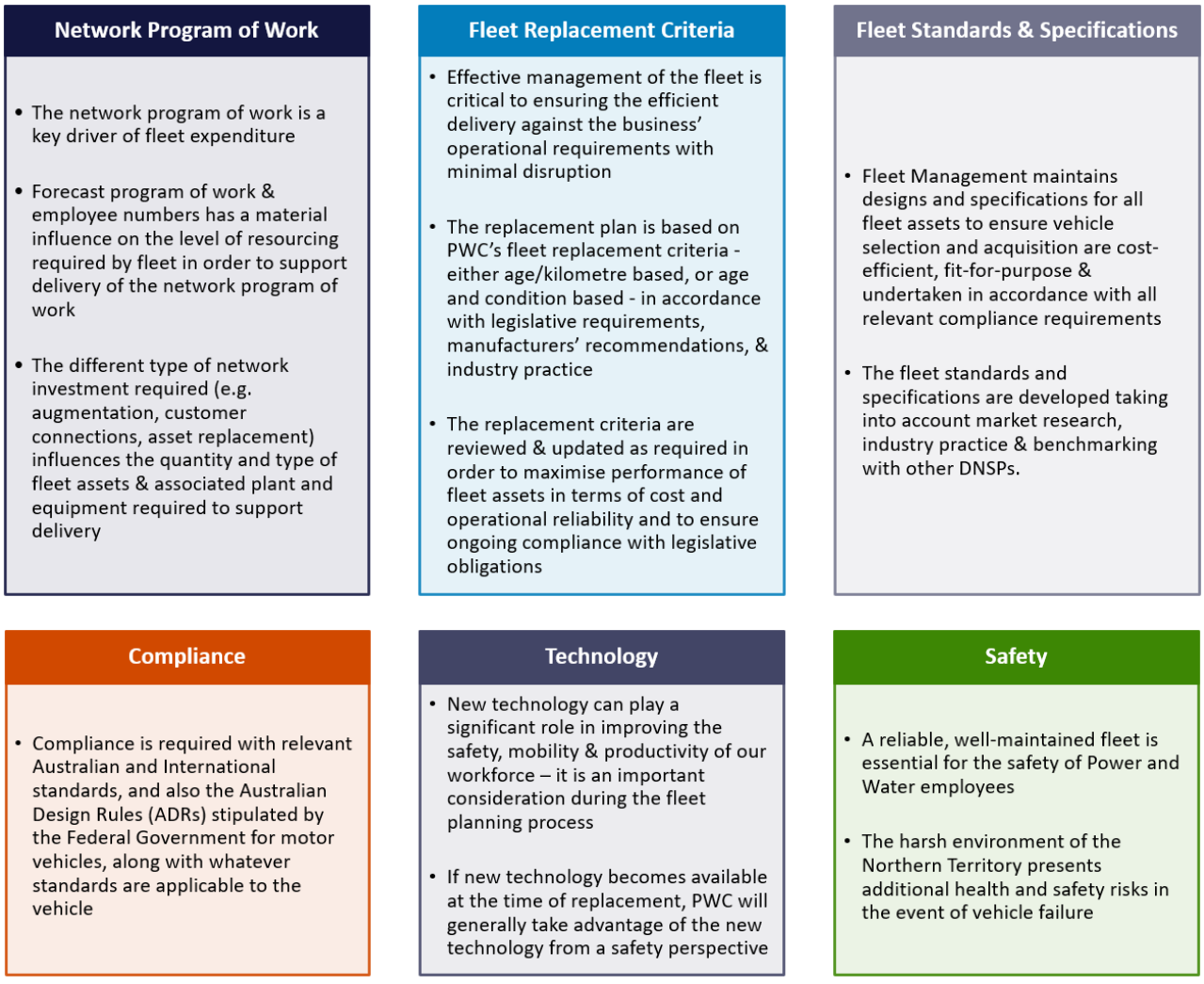
6. Expenditure forecasting

6.1 Fleet operational drivers

It is critical for business efficiency that our fleet is fit for purpose, reliable and importantly is maintained to a high standard to ensure safe travel and work operation. The fleet must comply with Australian Standards and key legislative obligations as well as our replacement criteria.

There are several key operational drivers in developing the fleet expenditure needs and forecasts, which are outlined in Figure 4.

Figure 4 Fleet Operational Drivers

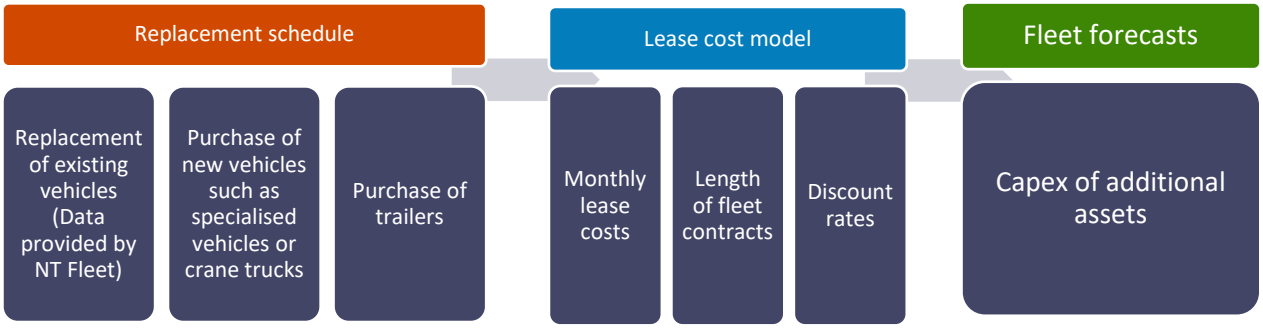


6.2 Forecast methodology

The forecast for fleet has been developed by applying a combination of bottom-up and top-down methodologies. A bottom-up build was undertaken, based on the drivers and assumptions for expenditure outlined above. A top-down analysis was also completed, with historical trends and benchmarking taken into consideration.

The forecasts are based on various components. Some components are based on historical expenditure and estimates whilst others are based on known lists of currently held assets as described below. Our approach to developing fleet forecasts is outlined in Figure 5.

Figure 5 Fleet forecasts approach



Two components are considered in developing the Fleet forecasts:

- **Replacement of existing vehicles** - is derived from the data provided by NT Fleet. The replacement forecasts are based on the contract length of vehicles, which is approximately four to five years. Due to this, the forecasts for the last two years of the next regulatory control period (2027-28 and 2028-29) have been forecast based on the average of the forecast and historical values of the fleet expenditure over the previous five years because replacement schedule data for the 2027-28 and 2028-29 were not available from NT Fleet when this version of the document was prepared
- **Purchase of new vehicles** - can involve the purchase of specialised vans or crane trucks. Power and Water purchase these vehicles and then NT Fleet registers the vehicles with Power and Water incurring monthly lease costs. This arrangement provides a cost-effective way for Power and Water to register its vehicles.

The fleet replacement schedule includes information on the number of replaced and new vehicles, monthly lease costs, length of contracts and the discount rates. This information feeds into the lease cost model in order to calculate the lease expenditure for the replaced vehicle and new assets. These costs are then provided as the fleet forecasts for the next regulatory control period.

The total expenditure has then been allocated based on the CAM approved by the AER for Power and Water. Forecasts presented in this document are for the regulated network business.

6.3 Forecasting assumptions

In developing a fleet expenditure forecast, a number of assumptions have been made based on how best fleet can support the future needs and requirements of the network, the staff and crew who work and support the physical assets and our customers:

- The demand for fleet is expected to remain constant over the 2024-29 regulatory control period and it has been assumed that vehicles will be replaced on a like-for-like basis
- Field crews, support staff and management use of the fleet to transport themselves and equipment will not change materially from current practices and procedures
- The size of the vehicle fleet is commensurate with the size of the works program and level of services that the regulated business will provide

- Current arrangements for leasing of vehicles with NT Fleet will continue and therefore that the number and lease costs of current vehicles will remain constant in real terms.

7. Expenditure plan

7.1 Current period performance

7.1.1 Overview

The tables below show the actual and estimated expenditure on fleet leases and motor vehicles compared to the original forecast included in the AER allowance for the current regulatory control period. The current period performance for fleet leases of $20.5 million (real 2021/22) is lower than the AER allowance of $27.4 million (real 2021/22).

Table 4 Comparison of actual/estimated fleet capex to AER allowance – current period ($m, real 2022)

	2019-20	2020-21	2021-22	2022-23	2023-24	Total
AER Allowance	14.18	3.60	3.15	3.54	2.88	27.35
Actual / estimated expenditure	12.10	2.34	1.94	2.51	1.59	20.48
Variance	-2.08	-1.26	-1.21	-1.03	-1.29	-6.87

The expenditure in FY20 reflects the adoption of Australian Accounting Standard AASB16 for regulatory reporting purposes, with expenditure after this significantly reflecting renewals and replacements in that particular year.

7.1.2 Relationship to total system capex

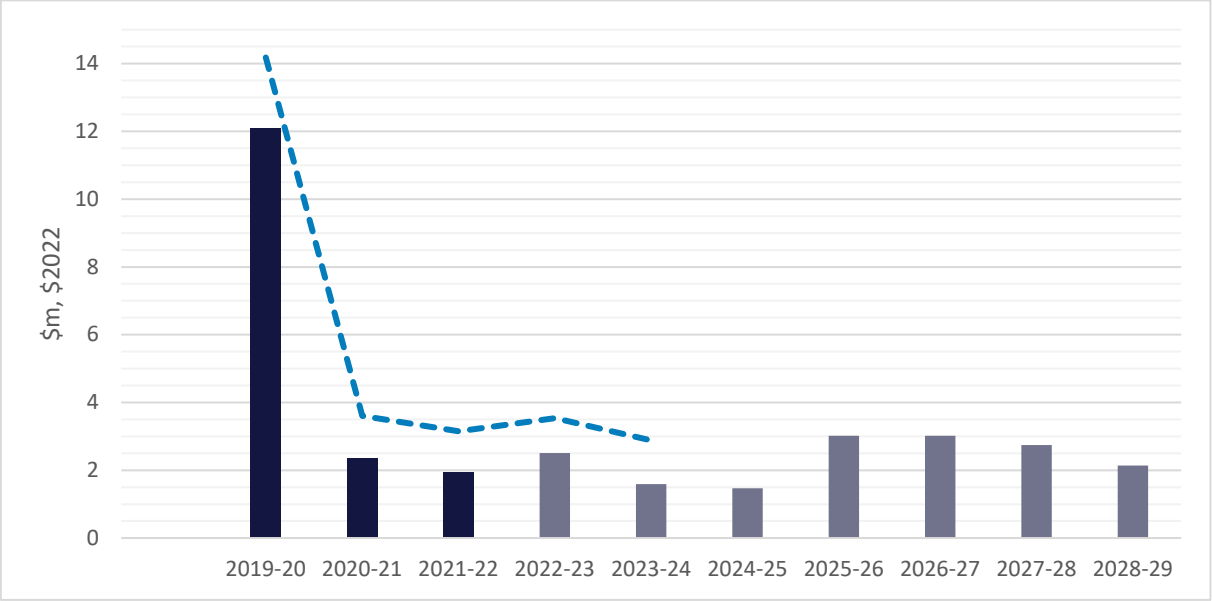
Capital and operating costs for fleet and motor vehicles are linked to the system capital expenditure program and regulated program of work, crewing structures, and work practices. Fleet is required to provide essential support to network investment, asset maintenance and system operation. Changes in the level of network investment may have a proportional change in the amount of fleet and type of vehicles that are required. In 2019-20 the increase is driven by the treatment of leases under the new accounting standard and a significant allowance for capital expenditure in those years. Following the capitalisation of fleet leases in 2019-20, the proportion of fleet capex to total capex has decreased sharply and has remained at relatively low percentages.

7.2 Forecast capital expenditure

7.2.1 Overview

Our forecasts have been carefully considered and informed by historical trend data, with inputs provided by an independent third party (NT Fleet). Our forecast fleet expenditure for the next regulatory control period is based on a review of our current fleet portfolio, future program of work and business requirements and staffing levels.

The forecast expenditure for the next regulatory control period allocated to Standard Control Services as



per the CAM is outlined in Table 6.

Table 5 Forecast Fleet expenditure ($m, real 2022)

	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Fleet leases	1.47	3.02	3.02	2.74	2.14	12.39

Continual renewal of all existing vehicles is assumed to be in accordance with the vehicles historical contract length and most recently available monthly lease costs.

A significant reduction in fleet leasing capital expenditure for the 2024-29 regulatory control period is forecast. Whilst the fleet requirements have been forecast on a 'like for like' basis, the number of vehicles being replaced, and the timing of replacements has an impact on the required fleet lease expenditure. The expected increase in FY26 to FY28 compared to FY25 and FY29 is simply a function of the type and volume of vehicles scheduled for replacement based on application of the replacement criteria.

As shown in Figure 1, with the exception of the high capex in FY20 that was due to accounting treatment (capitalisation of fleet leases), Power and Water is not proposing any significant changes to its fleet operations between regulatory control periods.

Figure 6 Actual and Forecast Fleet Lease Expenditure vs AER Allowance

7.3 Comparison to peers

Figure 7 provides an overview of the benchmarking undertaken to compare actual and forecast expenditure against its peers. We consider that the level of fleet expenditure on a per customer basis is generally in line with industry performance.

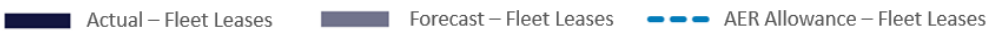
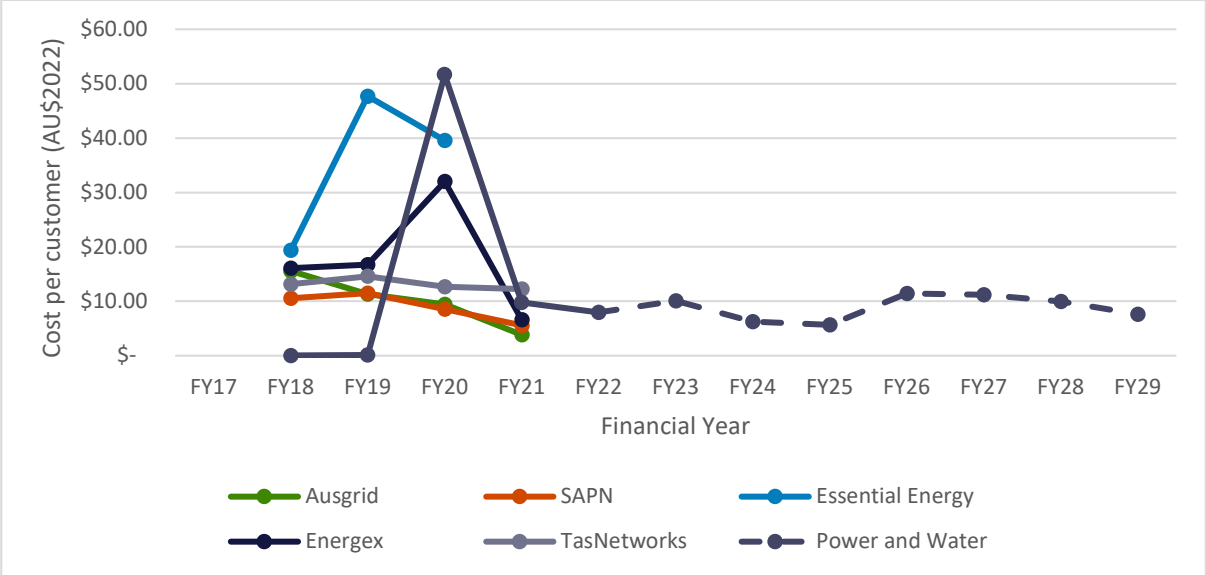


Figure 7 Benchmarking analysis of fleet



Assumptions: customer numbers grow at rate of 2% per year; all $ values are real $2022, all numbers up to FY22 are based on publicly available CA RIN data, FY22 and beyond based on internal forecast spreadsheets

Appendix A. Definitions

Term	Definition
Light Commercial Vehicle (LCV)	Light commercial vehicles (LCVs) are Motor Vehicles that are registered for use on public roads excluding elevated work platforms that: • are rigid trucks or load carrying vans or utilities having a gross vehicle mass greater than 1.5 tonnes but not exceeding 4.5 tonnes; or • have cab-chassis construction, and a gross vehicle mass greater than 1.5 tonnes but not exceeding 4.5 tonnes; or are buses with a gross vehicle mass not exceeding 4.5 tonnes
Motor Vehicle	Is any motor vehicle registered for use on public roads excluding motor vehicles not generally moved large distances on public roads under their own power (e.g. excluding tractors, forklifts, backhoes, bobcats and any other road registered mobile plant).
Motor Vehicle Expenditure	Motor Vehicle Expenditure is defined as all expenditure directly attributable to Motor Vehicles including: purchase, replacement, operation and maintenance of motor vehicles assets registered for use on public roads, excluding mobile plant and equipment. It excludes expenditure on vehicles not generally moved large distances on public roads under their own power. Expenditure on registered vehicles that is not Motor Vehicles Expenditure for this reason should be reported under the Other Non-network expenditure category include: tractors; forklifts; backhoes; bobcats and any other registered mobile plant. All Motor Vehicle Expenditure, irrespective of whether it is Network Motor Vehicle Expenditure or Non- Network Motor Vehicle Expenditure must be recorded in the Non-Network regulatory template. Subcategories of Motor Vehicle Expenditure are: • Motor Vehicle Expenditure – Cars • Motor Vehicle Expenditure – LCVs • Motor Vehicle Expenditure – HCVs • Motor Vehicle Expenditure – Elevated Work Platforms (LCVs) • Motor Vehicle Expenditure – Elevated Work Platforms (HCVs)

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