Public Accounts Committee

Inquiry into Splitting up the Power and Water Corporation

Power and Water Corporation Submission

1. Background

On 13 December 2013, the Northern Territory Government (NTG) announced its intention to structurally separate Power and Water Corporation's (PWC) monopoly and contestable businesses to create two new government owned corporations, the Power Retail Corporation (PRC) and the Power Generation Corporation (PGC) with residual functions to remain with PWC. PRC and PGC are to be stand-alone businesses with separate Boards and are to commence operations on 1 July 2014.

The structural separation of PWC is part of a program of reforms being implemented by the Government aimed at improving efficiency and competition in the Northern Territory Electricity Market. Additional background information on the NTG's electricity market reform policy is provided in the paper released by the Department of Treasury and Finance *Information Paper – Northern Territory Electricity Market Reform.*

PRC and PGC will provide electricity retail and generation services respectively in Darwin, Katherine, Alice Springs, Tennant Creek, Yulara, Borroloola, Ti Tree, Timber Creek, Kings Canyon, Daly Waters and Elliott.

All other existing service responsibilities are to remain with PWC including:
- water and sewerage, including associated retail functions;
- power networks, including metering;
- power system control (until establishment of the wholesale electricity market);
- gas purchasing (until a later date to be determined by NTG);
- Indigenous Essential Services; and
- a shared corporate services unit.

On 9 December 2013, the Shareholding Minister wrote to the PWC Board advising that he had asked Mr Alan Tregilgas to take responsibility for establishment of the two new GOCs and asked that the Board do whatever needs to be done to allow him to complete this task consistent with the Government's stated objectives. The letter also outlined the principal tasks to be undertaken by the PWC Board, being to:
- plan and manage all matters in relation to the creation of the new GOCs prior to their legal establishment;
- develop and negotiate all necessary contracts and service level agreements between the new GOCs and PWC; and
- ensure the transition process is well communicated to stakeholders.

This letter is provided at Appendix A.

To manage the implementation of the structural separation of PWC, the Government has established the New Corporations Unit (NewCo) in the Department of the Chief Minister, headed by Mr Alan Tregilgas. Mr Alan Tregilgas is responsible for making decisions in relation to the PRC and PGC during implementation of the structural separation program, until Boards and Chief Executives are appointed. PWC is working closely with NewCo to establish PRC and PGC. The program governance framework is at Appendix B.

2. Structural Separation Implementation

2.1 Implementation Objectives

PWC and NewCo are implementing the structural separation program in a manner to meet the following implementation objectives of the NTG:

- the program is to be delivered on schedule – with PRC and PGC commencing operations on 1 July 2014;
- there is to be no inconvenience and disruption to end users;
- there is to be a smooth transition of employees to the new entities;
- costs of structural separation are to be managed within the approved budget;
- there is to be no net cost to power consumers over the long term; and
- to support improved competition and efficiency.

2.2 Implementation Program

The structural separation program is being delivered in three phases:

- Phase 1 Planning – now complete, involved the establishment of governance arrangements, design of operating models, project management and change management planning;
- Phase 2 Execution – underway, includes all activities involved in establishing PRC and PGC by 1 July 2014; and
- Phase 3 Transition – is the activities that will occur post 1 July 2014 to support the operations of PRC and PGC for a transitional period.

2.3 Operating Models

During the Planning Phase of program implementation, operating models were designed to guide the activities involved in establishing PRC and PGC. A key concept is the Day 1 and Day X operating models:

- Day 1 Operating Model — Describes the business processes, procedures and systems to support operations at 1 July 2014; and

- Day X Operating Model — Describes the business processes, procedures and systems when PRC and PGC are entirely independent of PWC at a future date.

For a period of time from 1 July 2014, PWC will provide support to PRC and PGC operations under a number of 'Transitional Service Agreements' (TSAs) via services, systems or business procedures until PRC and PGC are entirely standalone. This will allow the new PRC and PGC Boards time to consider options and make decisions about how to most cost efficiently set up the new GOCs for the long term. An example is IT systems. Initially, PWC will provide IT system support to the new GOCs, as it will take some time for the new GOC Boards to assess options and either acquire IT service support from elsewhere or establish their own IT systems.

Fully separating PRC will involve more work than that required for PGC due to the integrated nature of the retail business and the number of PWC corporate systems utilised for retail activities. As such, on 1 July 2014, there will be a larger number of TSAs in place to support PRC than will be required for PGC.

From Day 1, there will also be a number of systems provided by the Department of Corporate and Information Services to PRC and PGC including payroll, vehicle management, email, systems, etc.

2.4 Implementation Project Management

Within PWC there are a range of activities underway across the organisation to implement structural separation in accordance with the NTG objectives. The largest components of this work are the changes required to IT systems, development of the TSAs and legal work.

A governance structure within PWC has been established to manage these activities, comprising eight separate workstreams, each with an appointed project manager:

- Retail Workstream;
- Generation Workstream;
- Legal Worksteam;
- Financial Workstream;
- IT Workstream;
- Corporate and Employee Services Workstream;
- Change Management and Communications Worksteam; and
- Residual Monopoly Operations Worksteam – comprising Water Services, Remote Operations, Power Networks, System Control and the Gas Unit with a project coordinator appointed to each group.

Ernst and Young (EY) has been appointed to provide program management support. EY has established a Master Plan for the structural separation program which lists each of the major tasks to be undertaken by each of the workstreams to achieve commencement of operations by PRC and PGC on 1 July 2014. EY holds regular meetings with the workstream project managers to monitor progress against the Master Plan and ensure all required activities are being implemented. Every two weeks, EY produces status update reports describing workstream progress.

There is a number of staff involved in implementation of the structural separation program across the various workstreams mentioned above, who have been working extremely hard to ensure the program is delivered according to the Government objectives and within the allocated timeframe.

2.5 Legal Due Diligence

Clayton Utz has been engaged by PWC to provide legal advice on matters relating to the structural separation program, including the draft legislation. Clayton Utz has undertaken a due diligence review of all of PWC's legal documents, contracts and agreements to ensure that any legal issues are addressed in the Transfer Regulations that will support the establishment of PRC and PGC activities on 1 July 2014.

2.6 Implementation Costs

The design of the structural separation program has taken into consideration the objective to minimise costs so there is no net cost to consumers over the long term. Structural separation program implementation costs are subject to critical review and approval by Mr Alan Tregilgas.

The approved expenditure to be spent by the NT Government on PWC's structural separation in 2013-14 is $2.8 million. This remains the estimated total cost of structural separation in the current financial year. This estimate will be reviewed by NewCo once the enabling legislation has been passed. Budgets post 1 July 2014 are dependant on how the new PRC and PGC Boards propose to operate these businesses. For example, whether it is more cost effective to acquire new systems or purchase services from another party.

PWC is recording the direct costs of implementing structural separation and noting whether these are attributed to the establishment of PRC, PGC or both GOCs. Costs incurred in establishing the two new GOCs are to be transferred from PWC to PRC or PGC on 1 July 2014.

The cost to PWC of implementing structural separation to date as at 31 March 2014 is $435,000. This cost is associated with the provision of legal advice, public communication and project management. This cost does not include the use of existing staff or resources or other regulatory reform costs, consistent with the specified budget for structural separation.

2.7 Organisational Change Management

PWC is very focused on ensuring staff are appropriately supported, consulted and informed during the structural separation process and a Change Management Plan has been prepared to guide this engagement with staff.

A subcommittee of the Joint Consultative Committee (JCC) has been established to consult with Union representatives on the changes associated with structural separation, including consultation on the Change Management Plan and organisational structures of PRC and PGC.

Staff that will transfer across to PRC and PGC are being consulted. The large majority of these staff are currently employed either within the PWC Retail or PWC Generation Business Units and for most people the change will not result in a change to their job description. For a small number of staff there will be a greater level of change. It is important to note that employment terms and conditions under the current enterprise bargaining agreement will be preserved for the period of the agreement and the provisions of the *Public Sector Employment and Management Act* will also apply to PRC and PGC. Moving across to a new workplace organisation is significant and we are very cognisant of the need to provide staff with the support they need to prepare for this change, including those that will remain with PWC.

2.8 Customer Engagement

Effective communication will be critical to ensuring there is no inconvenience or disruption to end users and customers are adequately informed about the changes involved in structural separation and what it means for them. PWC has developed a communication plan for conveying the necessary information to customers.

APPENDIX A

TREASURER

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Mr Ken Clarke
Chair
Power and Water Corporation Board

Dear Ken

The purpose of this letter is to advise the Board of the Power and Water Corporation (PWC) of some of my expectations for the new Board in light of recent Government decisions.

In its capacity as owner of PWC and with a view to improving the commercial performance of its investment in the Territory's electricity supply industry, the Government has decided to divest PWC of two businesses operating in that industry: Power Generation and Power Retail. As a result, two new Government Owned Corporations (GOCs) will be established on 1 July 2014. Power Networks and, until commencement of a wholesale electricity market in the Territory, Power System Control will both remain with PWC.

As the Shareholding Minister, I do not consider it appropriate that the PWC Board or executive management take direct responsibility for establishing the two new GOCs. This would give rise to a number of conflicts of interest on PWC's part. Besides, the Board already has significant challenges associated with its SCI efficiency improvement targets, which should continue to be the Board's primary focus along with ensuring effective and uninterrupted operations of all its business units through to 30 June 2014.

I therefore request that the Board take whatever action is necessary at the first meeting of the new Board on 11 December 2013 to facilitate implementing the Government's policy decisions in relation to the two new GOCs. The principal tasks will be to:

- plan and manage all matters in relation to the creation of the new GOCs prior to their legal establishment;
- develop and negotiate all necessary contracts and service level agreements between the new GOCs and PWC; and
- ensure the transition process is well communicated to stakeholders.

As you know, I have asked Alan Tregilgas to take responsibility for establishment of the two new GOCs and I would ask that the Board do whatever needs to be done to allow him to complete this task consistent with the Government's stated objectives, namely that implementation be achieved:

Northern Territory Government

- on schedule, with the two new GOCs commencing operations on 1 July 2014;
- at no inconvenience or disruption to end users;
- within a total budget approved by the Treasurer;
- in ways that involve no net cost to Territory power consumers; and
- in a manner supportive of improving competition and efficiency through regulatory reform.

I request that – prior to Christmas – agreement be reached between the Board and Alan on the necessary implementation arrangements, so that those arrangements can commence in earnest on 1 January 2014.

Should any conflicts arise with the Board's obligations under current legislation, I am willing to use my power of direction if the Board is of the view that to do so would assist in overcoming any such problems.

Yours sincerely

DAVID TOLLNER

- 9 DEC 2013

APPENDIX B

PWC Structural Separation: Project Governance

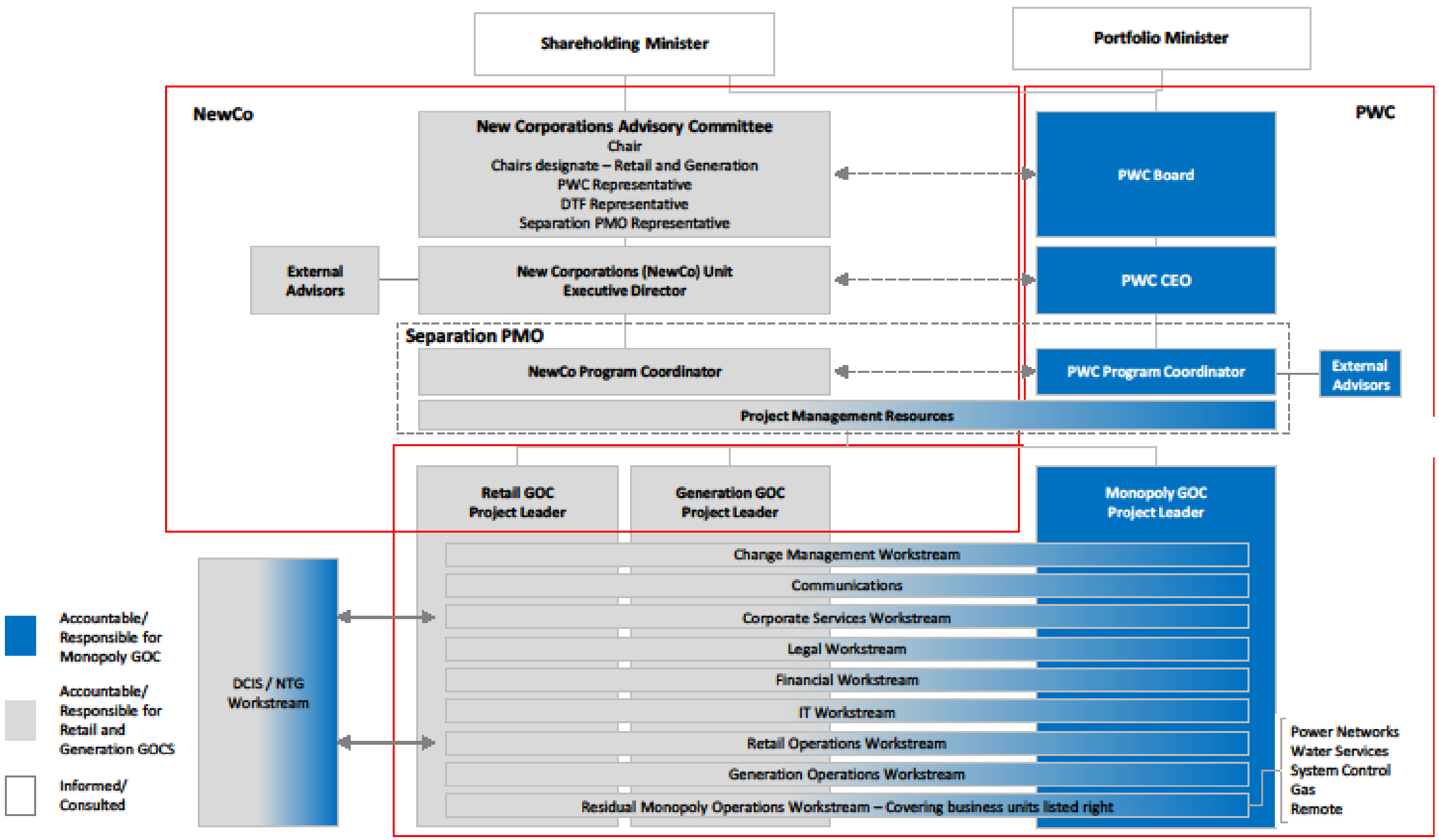

Figure 1: PWC Structural Separation Governance Structure

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