Leveraging Long Term Operational Plans to Enable Financial Decision Making

designed to benefit all stakeholders

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Introductions

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Implementation Strategy
Objective

Operational & Financial Alignment

- Transparency and alignment between operations and finance is key to running an efficient practice and connecting operational excellence to key strategic and financial initiatives

- Our objective today is
  - Understanding the value of bridging finance & ops
  - Examining key challenges across both orgs and how they relate
  - Discussing ways that systems and data can help to bridge the gap
What PowerPlan Brings to the Conversation

Operations and Finance

- **Long-Term Plan**
  - 5-100 years
  - Asset Management Planning

- **Near-Term Plan**
  - 1-5 years
  - Asset Investment Planning
  - Capital Budgeting
  - O&M Budgeting

- **Monthly / Quarterly Forecasting**
  - Project Cost Management
  - Depreciation Forecasting
  - Tax Forecasting

- **Daily Actuals**
  - CWIP, RWIP, expense, spending

- **Fixed Assets**
  - Assets & Depreciation
  - Lease Accounting

- **Tax & Regulatory Filings**
  - Rate Cases
  - Tax Cases
  - Property Taxes
# The Challenge at Utilities

How should I invest capital to maximize the value to the organization

<table>
<thead>
<tr>
<th>Across disparate entities…</th>
<th>Gas Distribution</th>
<th>Electric Distribution</th>
<th>Transmission</th>
<th>Generation</th>
<th>Storage</th>
<th>Renewables</th>
</tr>
</thead>
<tbody>
<tr>
<td>with varied project goals…</td>
<td>Safety</td>
<td>Compliance</td>
<td>Reliability</td>
<td>Customer Sat</td>
<td>Risk Mitigation</td>
<td>Shareholder Return</td>
</tr>
<tr>
<td>to comply with regulatory requirements…</td>
<td>PUC Compliance</td>
<td>FERC Compliance</td>
<td>Maximum ROE</td>
<td>Rate Base</td>
<td></td>
<td></td>
</tr>
<tr>
<td>across multiple jurisdictions…</td>
<td>Multiple States</td>
<td>Federal</td>
<td>Local</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>while delivering expected level of service…</td>
<td>Minimum service interruptions</td>
<td>Minimum outage time</td>
<td>Zero downtime</td>
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</tbody>
</table>
The Challenge at Utilities

Leverage a Common Vocabulary to use across Operations & Finance
Multiple Levels of Decision Making

- **AIP**: Asset Investment Planning
- **EAM**: Enterprise Asset Management
- **PPM**: Project Portfolio Management
- **APM**: Asset Performance Management

**Organizational Direction**
- **Investment Planning**
- **Tactical Decisions**
- **Operational Decisions**

**Asset Base**

**CAPEX**

**OPEX**

**TOTEX**

**Asset Health Monitoring**

**Timescales**
- 1-25+ years
- monthly to yearly
- weekly & monthly
- by the minute

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“If it were easy, everyone would do it.” - Tom Hanks, A League of Their Own

So…
“A goal without a plan is just a wish.”
- Antoine de Saint-Exupéry

However…
“The best laid schemes o' mice an' men
Gang aft a-gley, [often go awry]”
- John Steinbeck
Utilizing a Common Framework

Break Down Structures

Design
- Labour
  - Union FT: $500,000
  - Union PT: $500,000
  - Union Benefits (indirect): $10,000 (1%)
  - Contract: $500,000
- Materials: $100,000
- Equipment: $25,000
- Parts: $50,000
- Supplies: $25,000
- Contract & Supplies Indirect: $5,250 (1%)
Keep Goals in Mind
Unique Viewpoints Driving to Similar Objective

- **Operations Goals**
  - “Keep the Lights On”
  - Operational Excellence
  - Visibility into key project management metrics
  - Easy data entry/management

- **Finance Goals**
  - Understand/model financial impacts from operational decisions
  - Accurate/timely forecast updates
  - Ability to differentiate key financial metrics
Operations to Back Office Communications

- **Front Office: key data during planning**
  - What is planning to be built?
  - What is planning to be removed?
  - When will it be in-service?
  - What is the time frame of the spending expected

- **Back Office: computing financial impacts into the plans**
  - Capital overhead costs
  - AFUDC
  - Depreciation forecasts
  - Tax forecasts
  - Regulatory riders, trackers, etc.
Operations to Back Office Communications

Best Practices

- When Accounting, Regulatory and Tax are in Planning Processes
  - Often overlooked or not consulted during the planning process
- Education
  - A&F leaders help the operations teams understand financial impacts of business processes (e.g. cost overruns, removal cost and retirements)
- A&F team members spending time in the field
  - Helps to understand how operations execute plans
  - Identify Processes, Tools, and Systems used by operations which can influence back office requirements
- Establish and monitor processes with controls and feedback process
Implementing Controls Culture

What are your controls measuring?

- Total spending
- Specific measures
- Outcomes achieved
- Forecasting accuracy

What results from measures?
Planning technology…. portfolio optimization

Optimization is increasingly mainstream in our daily lives
What does portfolio optimization offer vis a vis the utility paradigm shift

What’s the “Fastest Route” for a world class utility:

- Increased efficiency (operational begets financial)
- Increased asset capability and resiliency
- Customer experience improvements
- Sustainable assets; sustainable investment plans
- Rate stabilization
Recent SNL Study

Capex ratio may identify utilities with largest EPS growth potential

- Capex is arguably the most important determinant of utility EPS growth, especially for traditional, rate base/rate of return regulated operations.

- Other factors, however, such as the level of sales, revenues, operating expenses, depreciation and taxes also impact EPS growth.

- Capex that is dedicated to non-regulated operations run the risk of not producing reasonable, or for that matter, any EPS growth if the funds were not productively invested.

Q: How to invest productively?
What is the future?

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Vertically Integrated Financials
Questions and Answers