

### Finding the Right Balance: Performance Priorities

#### The Landscape is Shifting

As part of our annual benchmarking we look at those KPIs which utility and renewable companies include in their annual reports. Some drive STI and LTI plans. Others provide an update on how companies are tracking against strategy and operational priorities. A few observations are relevant:

1. **Financial Performance** remains the most important factor in measuring an organisation's performance. Financial viability is paramount along with reasonable returns to owners.
2. **Operational Performance** is critical for water utilities, where water supply and wastewater services are essential for all city and town dwellers. The NEM faces a number of challenges with the rapid rise of rooftop solar and renewable generation. Increased emphasis on firming is an emerging priority.
3. **People & Safety** rank highly for all utilities and renewable companies. Safety is critical with SIFR and TRIFR being important measures. Safety culture and employee engagement are also priorities. We're just beginning to see "Future Workforce" initiatives emerging as companies navigate a shifting employment landscape.
4. **Indigenous Engagement** has been on the corporate agenda for a long time in NZ and is gaining in importance in Australia. As well as employment targets some companies have set KPIs associated with procurement from indigenous suppliers.
5. **Stakeholder Management** is an important focus for all utilities and renewable companies as the number of stakeholder groups multiply and demand a voice. Regulators, customers, landowners, governments, owners and community groups all feature on the company's radar.
6. **Environmental Imperatives** are a feature of the KPI landscape for all utility companies with some including Scope 1 and 2 emissions reduction targets in their STI and LTI plans. Many water companies are deploying wind and solar generation to power operational facilities.



In this Newsletter we discuss the performance environment in which utility and renewable companies operation. The level of regulation and type of ownership structure paly a big part on how and organisation prioritises its KPIs.

#### Geoff Nunn & Associates

Geoff Nunn & Associates was established in 1993 as an independent provider of services to the government and corporate sectors. We specialise in working with boards and CEOs in the areas of remuneration governance, remuneration strategy development, remuneration structures, non-equity variable reward plans and remuneration committee charter drafting.

#### Our Services

- Board & Executive Remuneration
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- Board Charter Drafting

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# The Performance Environment A Bit More Depth

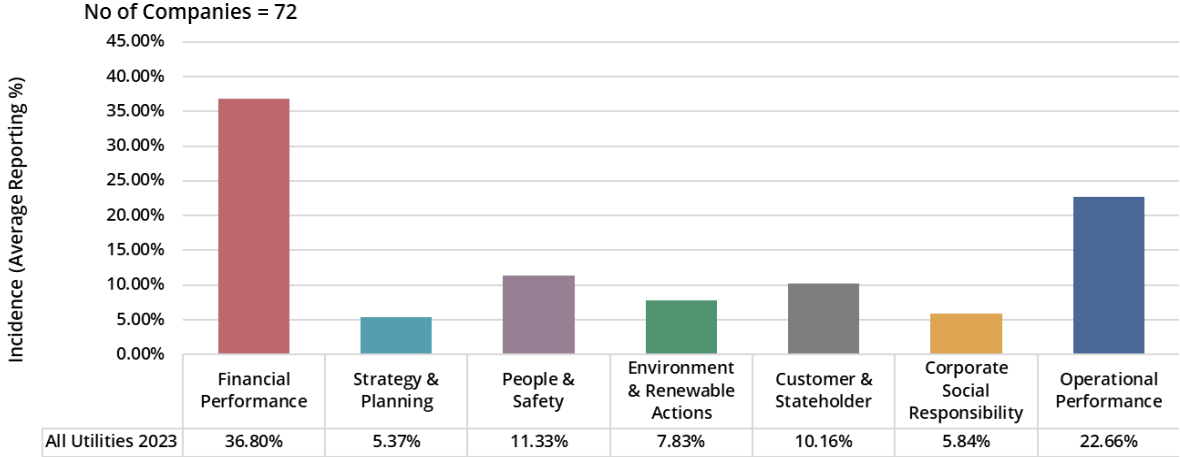


The Renewables Revolution

**What Do the Numbers Say?**

The following graph sets out the macro reporting environment for utility companies. This analysis give a clear indication of what companies value:

**KPIs Macro Summary  
All Utilities 2023**



What companies choose to include in their annual reports is not the full story. Many government owned utilities are required to report in a prescribed format. So let’s have a deeper look at the three highest priority areas: Financial Performance, People and Safety, and Operational Performance.

**Financial Performance**

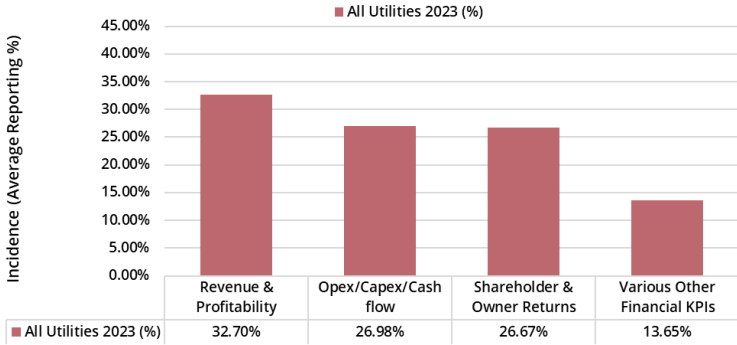
For ease of understanding we’ve grouped financial measures into four distinct categories. Revenue and Profitability score the highest followed by Opex/Capex /Cashflow then come Shareholder and Owner Returns. This makes sense as companies strive to maintain financial viability and ensure the cashflow to sustain its operations.

There is a clear distinction between government owned and private and listed entities. Government utilities are generally less focused on owner returns when it comes to the delivery of essential services. Water and energy are hot political issues as governments strive to ensure affordability and make hardship provisions for those in need.

From an overall perspective the weighting on financial performance, particularly as it relates to STI and LTI plans in listed and private energy companies, is high and needs to shift more toward Customer and Stakeholder and Environmental and Renewable Actions to provide a balanced perspective.

On the flip side, shareholders and institutional investors expect a reasonable return for the risks taken with energy investment. Most are strong advocates of ESG principles and these are applied through nominee directors.

**Financial KPIs  
All Utilities 2023**



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# The Performance Environment (Continued)



## People & Safety

All utilities and renewable companies place safety as a key priority (with TRIFR and SIFR as lag indicators). All take a proactive approach to safety culture and many have lead indicators such as health and safety design, hazard identification, OH & S training and employee wellbeing plans.

Future Workforce Initiatives have yet to really establish themselves in terms of corporate reporting. Many companies have plans to shift the traditional employment model that was in place prior the Covid years.

## Operational Performance

Overwhelmingly “Operational Effectiveness” dominates this category. The capacity to deliver gas, electricity, water and wastewater services to end users is a utility organisations reason for being. There are various measures of operational performance such as SAIDI and SAIFI, response to sewer spills etc. Utility organisations are focused on system reliability and minimizing outages of any kind.

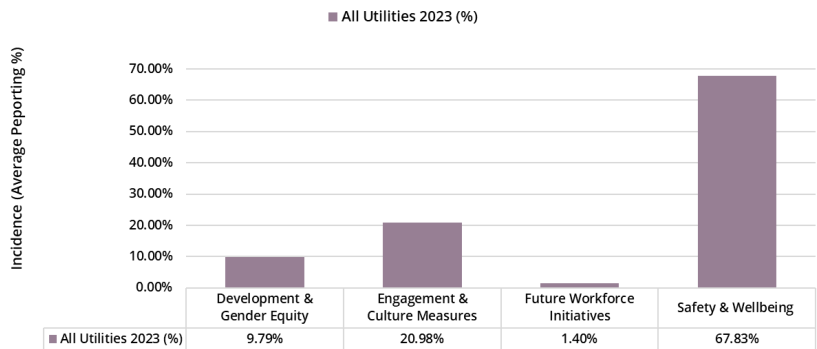
The fact that Project Delivery and Cyber Security do not rate more highly is more about reporting that it is about actuality. All utility organisations have multiple renewable and upgrade projects underway and are very focused on cyber security.

## Governance Imperatives

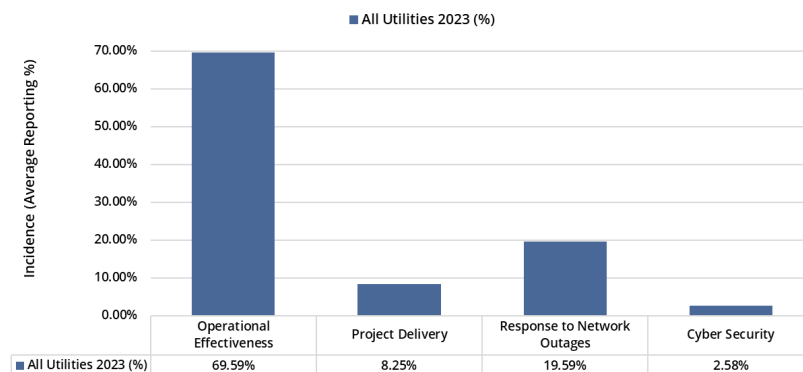
Boards and board committees are very focused on corporate performance reporting. As mentioned previously, priorities vary depending on factors such as:

- Ownership Structure
- Regulatory Environment
- Customer Base
- Geography
- Stakeholder Views

People & Safety KPIs  
All Utilities 2023



Operational Performance KPIs  
Utilities 2023



Government owned utilities and renewable companies often have mandated KPI reporting formats. These tend to be quite comprehensive and ensure that the relevant departments, clients and other stakeholders have access to sound information about their essential service providers.

If your company needs assistance in developing it's scorecard contact Geoff on [gtnunn@gna.net.au](mailto:gtnunn@gna.net.au)

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