

Long Term Asset Management

The generation sector of the energy industry is characterised by high capital investments and relatively low operating costs. Strategic positioning of businesses to manage market fundamentals, build quality assets and utilise good maintenance management preserves long term asset values.

The prime costs in any generation business are capital and fuel. Strategic positioning is needed to manage long term fuel costs and capital management is a balance between initial capital expenditure and ongoing asset performance. This balance must be a deliberate choice during the design phase and implemented in the project construction.

From an operational perspective, asset value, asset reliability and low ongoing costs are maintained by appropriate budgeting and expenditure supported by an organisational culture of long term thinking.

The power of executives to slash short term budgets to create profits is well known however the appreciation of the resultant reduction in asset life is not. If asset lives are being reduced and with the highest input cost being capital, we have, by focusing on short term profits, increased our biggest cost. The short term focus will not manifest itself in the costs base or asset reliability for a number of years however the lost asset life may be permanent. If the generation industry is to maintain a low cost base to customers, long term asset reliability and life must remain important in the thinking of Boards and in government policy.

What is not appreciated at present is the influence of the trading function to decrease asset lives and reliability by trying to extract short term gains from the energy market whilst it is under stressed pricing. Trading physical assets into the national electricity pool is not a computer game but involves the management of real assets that can have their value changed by traders actions.

Assets have relatively fixed requirements for maintenance man-hours. Different maintenance structures that produce a visual effect of reduced staff numbers to satisfy Boards and executive egos, have a high likelihood of destroying asset value. Asset value can be eroded quickly by so called efficiency improvements and once lost, it cannot be economically recovered.

In recent times, access to “ easy money ” has seen business development become the focus of boards and business debt levels have risen rapidly. Due diligence programs have been reduced or disbanded as purchase mistakes have been easily on sold. With less funding available, Boards will again focus on efficient operational management and assets will have to perform at high levels to maintain business value. Reducing costs sustainably will reposition businesses and improve profit margins. Unless the strategic positioning program has been completed well, companies may find that assets do not perform as forecast and costs rise.

The understanding of all Board members of the principles of good industry practice whether it be positioning or asset performance is vital to maintaining long term asset values. Selection of, payment to and time spent by selected Board members in the industry and business is critical to managing executives and maintaining asset values. Corporate culture must entrench long term thinking and good asset management practices throughout the asset life cycle.



“Quality Commerce”

RnP Corporate Advisory

ABN: 28 314 404 507

46 Catamaran St
Manly West Q 4179

RnP Group Pty Ltd

Tel: 07 3396 4600

Fax: 07 3396 0294

ACN: 125 390 785