**What a difference a plan makes**

*A major US energy company’s investment in the reformed New Zealand electricity sector* *has paid dividends.*

If some business commentators are to be believed, the days of the company strategy, set out in the strategic plan, are numbered. A better way to increase profits and share price is to grab opportunities when they arise and manage problems as best you can, rather than try and set out your future in a formal, strategic manner. The recent performance of New Zealand’s largest electricity lines company, UnitedNetworks Limited (UNL) suggests that both approaches - a deliberate strategy and seizing opportunities – can pay real dividends.

UNL, 70% owned by the US energy company UtiliCorp United, has seen its share value increase by over 40 % in the last year because of positive market reaction to the company’s change in strategic direction, articulated in a six page strategic plan.

At the start of 2000, UNL owned and maintained electricity distribution lines in three parts of New Zealand’s North Island, including half of New Zealand’s largest city, Auckland. Its share price was stagnant and its profit the same. Eighteen months later, UNL has become a horizontally integrated network company with electricity, gas and telecommunications networks. Its maintenance business unit has been sold for NZ$72million to Siemens Energy Services. That sale has freed the company of its largest business unit and provided a tidy capital sum to boot.

UNL’s improved performance owes much to its smart reaction to the proposed

amendments to the regulatory environment of Prime Minister Helen Clark’s

Labour/Alliance government that came to power in October 1999. The intended changes are the latest in a series of reforms which have seen the sector transformed from the fully regulated, state- and municipality-owned, non-competitive setup of 1986 to today’s fully corporatised, partly privatised, predominantly competitive sector operating within a light-handed, “hands-off” regulatory framework.

The new government made it clear that the light-handed regulatory framework would continue. But a new law would be passed to enable revenue limits to be imposed on single electricity lines companies found to be taking advantage of their monopoly position. Misbehaving companies could be targeted on a case-by-case basis, a major sea change. Under the old regulatory regime, electricity lines companies managed earnings and network investment to keep within a “reasonable” return on investment (ROI), so as to stay out of trouble with the regulator. This approach had provided good profits. But it had also diluted the drive to address some deep-seated performance issues. UNL’s network maintenance business unit required significant management focus and resources. Customer service needed improvement, as did UNL’s knowledge of its network maintenance status and ongoing requirements. It was a battle to control cost- hungry projects.

In response to this significant change in the regulatory framework, UNL decided that its future would lie in the intellectual capital of the business, managing knowledge in asset strategy and network design. It would no longer be in the business of actually building and maintaining the network. Underpinning this strategic shift was the company’s view that the new regulatory regime did not prohibit legitimate and reasonable earnings by electricity lines companies provided a fair percentage of efficiency gains were passed to customers.

Its network maintenance business unit was put on the market in late 2000. The decision to sell signified the extent of the new strategic direction. An electricity lines company that no longer has an in-house maintenance capability must quickly develop its intellectual capital and knowledge management capability. It must be able to develop, implement and monitor the contracts it has with the main external network maintenance contractor. To do this, it must know the state of its network, the optimum standard and frequency of network maintenance, and the frequency, quality and cost of work carried out by the external contractor.

UNL’s decision to sell its network maintenance business unit was the result of a

deliberate, measured, well thought-out and articulated strategic plan driven by major changes to the business environment within which the company operated. By contrast, the company’s expansion into two new utility networks, gas and fibre-optic cable, was the result of seizing a major opportunity rather than the culmination of a deliberate pre-meditated strategic undertaking.

In May 2000, Orion New Zealand Limited, a Christchurch-based energy company, decided to sell its North Island gas distribution network. At that time, UNL did not have a specific plan to own and maintain a gas distribution network, although like all companies it kept an eye on possible acquisitions. When the Orion gas distribution network went on the market, UNL assessed the

acquisition as a not-to-be missed opportunity. UNL could operate the gas network more cost effectively by taking advantage of synergies, increase gas usage in strategic locations to assist manage its electricity network load, and reduce its risk profile through diversification. UNL’s bid of NZ$500 million provided the company with its second utility network. The third, a fibre-optic cable network, was built from scratch in rapid time utilising abandoned gas mains acquired as part of the Orion purchase.

Before submitting a bid for the Orion gas network, UNL had of course undertaken an extensive due diligence examination of the financial and asset condition of the Orion gas network. But it had not been able to undertake a metre-by-metre assessment of the extent and condition of the Orion gas mains, listed in the asset register as “abandoned”. UNL knew that these gas mains were mostly located in the central business districts (CBDs) of New Zealand’s two largest cities, Wellington and Auckland. But assessing their condition would have to wait until it owned Orion.

As luck would have it, one of UNL’s senior staff members had years of experience in the New Zealand telecommunications sector. He knew there was a real need for a high speed, broadband, fibre-optic cable network to address the growing discrepancy between electronic traffic and the capacity of electronic networks. But constructing such a network, involving a formal approval process and digging up the centers of two major cities is slow and prohibitively costly.

Unless of course you already own underground tunnels in both CBDs, in the form of abandoned gas mains.

The rest, as they say, is history. UNL’s board fast-tracked the capital outlay required to turn old gas mains into a state-of-the-art, bandwith-on-demand, fibre-optic network. UnitedNetworks Communications was launched in February 2001 with the unveiling of a wholesale, open-access, high-bandwidth network providing connection speeds up to 20,000 times faster than a dial-up modem and a capacity of tens of gigabytes per second.

UNL’s decision to seize the Orion opportunity, combined with its strong strategic

response to changed business environment, has enabled UNL to become a genuinely integrated, knowledge-focused network company. Its transformation has resulted in an envious improvement in share value and profit.

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