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Main points

In 1998, SaskPower made a major investment in a new information system (System). The original cost to redesign its processes and install the system was \$58 million. SaskPower estimates that benefits from the improvements in processes enabled by the System will total \$120 million.

In this chapter, we follow up on the recommendations we made in our 2002 Spring Report on SaskPower's processes to realize, measure, and report on these benefits. In 2002, we recommended SaskPower should:

- ◆ set out the benefit targets and measures for the System in its business plan and report the results achieved in its annual report;
- ◆ establish policies to support a long-term continuous process improvement program that includes training and System support plans for its employees; and
- ◆ provide its Board of Directors with independent advice on benefit targets and measures, the effectiveness of the new work processes and on the reliability of key reports.

We congratulate SaskPower on its progress in setting out benefit targets and measures and reporting the results. Therefore, we no longer make this recommendation.

However, SaskPower still has work to do, and we continue our recommendations on policies and strategies to support continuous process improvement and getting independent advice on benefits measurement and work processes.

In the future, we plan to focus on the Transmission and Distribution core business unit; examining the processes used to achieve benefits, and seeing if SaskPower gets independent advice on benefit targets and measures.

We also report the results of the audits of SaskPower, its companies and the Power Corporation Superannuation Plan for the year ended December 31, 2003. We concluded that the financial statements are reliable; they have adequate systems and practices to safeguard public resources, and they have complied with the authorities governing their activities.

Introduction

Saskatchewan Power Corporation (SaskPower) is the principle supplier of electricity in Saskatchewan. SaskPower delivers electricity through two main core business units: Power Production (power plants), and Transmission and Distribution (moving power in bulk from power sources to customers).

SaskPower prepares consolidated financial statements to report on its activities. The consolidated financial statements include the financial activities of SaskPower and the companies it owns and controls.

In 2003, SaskPower had revenue of \$1.2 billion and net income of \$187 million. At December 31, 2003, it held assets of \$3.6 billion.

SaskPower owns three companies: SaskPower International Inc., NorthPoint Energy Solutions Inc., and Power Greenhouses Inc. SaskPower also manages the Power Corporation Superannuation Plan.

SaskPower International (International)

International's mandate is to seek new revenue sources. This includes investing in joint venture power-related projects and selling flyash.

In 2003, International had revenue of \$20 million and net income of \$2 million. At December 31, 2003, it held assets of \$167 million.

NorthPoint Energy Solutions Inc. (NorthPoint)

NorthPoint performs generation and load management services. It also provides energy trading functions related to the generation assets of SaskPower. The energy trading functions include selling surplus power and buying power for domestic use when a shortfall occurs or lower cost power is available. NorthPoint also buys and sells power in transactions not related to SaskPower's generation assets.

In 2003, NorthPoint had revenue of \$27 million and net income of \$6 million. At December 31, 2003, it held assets of \$30 million.

Power Greenhouses Inc. (Greenhouse)

Greenhouse distributes tree seedlings for reclamation, habitat development, and restoration. The seedlings are grown using waste heat from the Shand Power Station.

Greenhouse's sole revenue source is SaskPower. In 2003, SaskPower reimbursed Greenhouse for expenses totalling \$1 million. At December 31, 2003, Greenhouse held assets of \$4 million.

The Power Corporation Superannuation Plan (Plan)

The Plan is a defined benefit pension plan for employees hired prior to October 1, 1977. A board appointed by Cabinet administers the Plan.

At December 31, 2003, the Plan had assets of \$684 million and liabilities of \$704 million.

Our audit conclusions and findings

Our office worked with Deloitte & Touche LLP, the appointed auditor for SaskPower, International, NorthPoint, and the Plan. Our Office also worked with Matchett, Potts, and Seipp, the appointed auditor for Greenhouse. Our Office and the appointed auditors worked together using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. To view this report, see our web site at <http://www.auditor.sk.ca/>. The appointed auditors and our office formed the following opinions.

In our opinion, for the year ended December 31, 2003,

- ◆ **the financial statements of SaskPower, its companies, and the Plan are reliable;**
- ◆ **SaskPower, its companies, and the Plan had adequate rules and procedures to safeguard public resources; and**
- ◆ **SaskPower, its companies, and the Plan complied with authorities governing their activities related to financial**

reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing.

In this chapter, we follow up on the recommendations we made in our 2002 Spring Report on the SaskPower Benefit Realization Process. We reported on the adequacy of SaskPower's processes to realize, measure, and report on benefits achieved from improved business processes enabled by its new information system.

Our follow-up focused on the progress made by Power Production. We also followed up on SaskPower's strategies to enable change. In the future, we plan to examine progress made by Transmission and Distribution.

Background

In 1998, SaskPower made a major investment in a new information System (System). The original cost to redesign its processes and install the system was \$58 million. SaskPower estimates that benefits from the improvements in processes enabled by the System will total \$120 million.

In March 1999, we reviewed SaskPower's project management practices to implement the System. We concluded that SaskPower had good practices to implement the System. We recommended that SaskPower set measurable targets for the planned benefits over the System's five-year business plan and report progress against these targets to the Board of Directors and in its annual report.

At that time, we said SaskPower faced four challenges and they continue today. These challenges are:

- ◆ ensuring SaskPower realizes the expected benefits from the System;
- ◆ ensuring staff are properly trained in the new business processes and motivated to realize the benefits;
- ◆ ensuring specialized knowledge and skills gained by SaskPower's implementation team are retained for running and managing the System; and
- ◆ securing the System to ensure the confidentiality, completeness, accuracy, and availability of information.

In late 2000, management informed the Board that progress in achieving the benefits was not going as planned. The Board directed management to assess and report on how to realize the benefits. In 2002, we reviewed SaskPower's processes to realize, measure, and report on benefits achieved from its new System. We also focused on the processes to realize the benefits in Power Production.

In our 2002 Spring Report Chapter 11¹, we made three recommendations to help SaskPower realize, measure, and report the System's benefits.

- ◆ SaskPower should set out the benefit targets and measures for the System in its business plan and report the results achieved in its annual report.
- ◆ SaskPower should establish policies to support a long-term continuous process improvement program that includes training and System support plans for its employees.
- ◆ SaskPower should provide its Board of Directors with independent advice on benefit targets and measures, the effectiveness of the new work processes and on the reliability of key reports.

The Standing Committee on Crown Corporations' Third Report of December 2002 agreed with these recommendations.

Current status of recommendations

In this section, we report on the status of each of the above recommendations at February 2004.

Recommendation 1: Benefit targets and measures in business plans and annual report

Senior management commitment is very important to the success of projects. It is even more crucial when projects are complex, span many years, and involve significant change. Good governance, accountability, and active leadership processes are required to obtain and maintain

¹ Exhibit 1 contains our detailed criteria used in 2002.

strong commitment to projects. Based on our discussions with senior management and our review of the Board of Director's minutes, we concluded SaskPower is committed to achieving the maximum benefits from this System.

We also reviewed SaskPower's processes for realizing, measuring, and reporting benefits from the System. SaskPower established targets for the expected benefits. We reviewed the 2004 Business and Strategic Plan and the 2003 Annual Report. In the 2003 Annual Report, SaskPower discusses the costs and benefits of the project including Power Production.

The original cost to the Corporation to redesign its processes and install the SAP software system was \$58 million with operating expenditures forecasted at approximately \$30 million over the first five years of operation. SaskPower originally expected to realize benefits from the project of \$167 million over the same period. The Corporation now expects to achieve approximately \$120 million of benefits as a result of this investment. The bulk of these benefits will result from improved planning and maintenance activities at SaskPower's coal-fired power stations. Improved planning and maintenance activities are anticipated to translate into better availability of the coal plants (production of more electricity) which will minimize the cost of using more expensive forms of replacement energy such as natural gas. As of December 31, 2003, SaskPower had realized benefits of \$53 million. The Corporation has made a strategic priority of leveraging this investment particularly in Power Production, Transmission and Distribution, and Corporate Information and Technology and continually seeks new ways to improve operational performance through leverage of the investment.

The benefits received to date are mainly the results of process improvements in Power Production and avoiding some computer costs. SaskPower is realizing the Power Production benefits as planned.

SaskPower is now focused on identifying and obtaining benefits in Transmission and Distribution. SaskPower needs to identify and tie performance measures to realization of benefits in Transmission and Distribution. Currently, SaskPower has identified \$4 million in benefits from improved processes in Transmission and Distribution. SaskPower is still examining this area to see if further benefits can be obtained.

Overall, SaskPower has made sufficient progress in setting out the benefit targets and measures for the System in its business plan and reporting the results achieved in its annual report.

Recommendation 2: Policies and support to sustain long-term process improvement

To achieve the benefits from the System, SaskPower must change its processes and be ready for more changes in the future. As part of our 2002 audit, we assessed SaskPower's change process. At that time, SaskPower's corporate culture survey indicated a culture that avoids change. We expected SaskPower to provide the structural support to manage change. It did this by setting up a continuous process improvement program with a project management office. SaskPower is now in the process of incorporating these functions into its normal business operations.

We expect SaskPower to sustain the benefits of process improvement. Its Human Resources division is developing a strategy to align compensation with new work processes. It has introduced a performance management system to ensure employees achieve both corporate and personal objectives. Human Resources has also introduced a labour relations strategy to assist management and the unions to work together to achieve SaskPower's objectives. There are also initiatives to develop a better change management process, improve diversity, and encourage learning. SaskPower should evaluate these strategies and initiatives to ensure they promote a culture of change and reward process improvements.

In our 2002 Spring Report, we stated SaskPower must examine how it delivers support for the System so that it can better respond to user needs. SaskPower has developed strategies to move some support functions to the business units and fill System Support staffing needs with long-term contract help. If SaskPower is able to move some support functions to the business units, System Support will have more time available for system improvements.

Both Human Resources and System Support are developing specific strategies to promote and support continuous improvement; however, these strategies have yet to be fully implemented.

We continue to recommend that SaskPower implement its policies and strategies to promote long-term continuous process improvement.

Recommendation 3: Independent monitoring of benefits and work processes

In our 2002 Spring Report, we also focused on a Power Production maintenance planning and scheduling project. SaskPower estimates savings of \$74 million out of the \$120 million in total benefits from improved power plant maintenance processes.

We expected SaskPower to measure and report on realized benefits. We expected senior management would base their reporting on clearly defined performance measures including appropriate indicators for process improvement and benefit realization. By measuring and reporting, improvements will result. Michael Hammer in his book *The Agenda* states:

Measurement is not the essence, but improvement. The purpose of measuring is not to know how a business is performing but to enable it to perform better. Measurement must be neither an end nor an activity in itself but part of an integrated system for enhancing business performance.

Power Production measures and reports both the percentage of work scheduled and the outcome of improved scheduling. The outcome is improved production capacity of the coal-fired power plants.

We also expected the processes to include getting an independent assessment of the measures and conclusions reached. SaskPower got an independent assessment and we reviewed it. The conclusions reached were consistent with those we reached in 2002. The assessment concluded:

- ◆ the new processes are effective and consistent with other power plants;
- ◆ the measurement reports are accurate, reliable, and comparable;
- ◆ the assumptions used in benefit measurement are reasonable; and
- ◆ it is too soon to determine conclusively, if the improved work processes will fully realize the planned benefits.

SaskPower has not yet completed a similar assessment of the work processes and benefit targets and measures in Transmission and Distribution. An assessment could help determine if the planned benefits are reasonable and if improved work processes enabled by the System will improve performance. An assessment may also determine if there are additional benefits.

For these reasons, we continue to recommend that SaskPower provide its Board of Directors with independent advice on its benefit targets and measures, the effectiveness of the new work processes, and on the reliability of key reports.

SaskPower's response:

SaskPower will endeavour to implement its policies and strategies to promote long term continuous improvement with particular emphasis on implementing an approved SAP Support Strategy. SaskPower also agrees to provide its Board of Directors with independent advice on benefit targets, effectiveness of the new work processes and on the reliability of key reports with particular emphasis on the Transmission & Distribution benefits realization commitment.

Future work

We plan to examine SaskPower's processes to achieve benefits in Transmission and Distribution. We will look to see if SaskPower gets independent advice on Transmission and Distribution's new work processes and benefit targets and measures. We will also follow up on SaskPower's progress in implementing strategies to sustain change.

Exhibit 1 – Detailed criteria

- 1. Senior management commitment to realize the benefits**
 - 1.1 Governance processes**
 - 1.1.2 The team has the authority to carry out the Program
 - 1.1.3 A strong team is put in place to carry out the Program
 - 1.2 Accountability processes**
 - 1.2.1 Clear measurable performance targets
 - 1.2.2 Performance measurement
 - 1.2.3 Assessing results
 - 1.2.4 Alignment of objectives with the Business Plan and Annual Report
 - 1.3 Proactive leadership**
- 2. Proactive change management processes needed to realize benefits**
 - 2.1 There is a sense of urgency for the change**
 - 2.1.1 There are strong business reasons for making the changes
 - 2.1.2 The business reasons are understood and accepted by management and the Board
 - 2.2 Senior management lead and believe in the project**
 - 2.2.1 The process owners are committed to realizing the benefits
 - 2.2.2 Key individuals are assembled to lead the change
 - 2.2.3 Good team work practices are encouraged
 - 2.3 The program is guided by a clear vision**
 - 2.3.1 A clear vision of the process improvement program is developed
 - 2.3.2 A clear vision of the new work processes is developed
 - 2.3.3 Strategies are developed for achieving the vision
 - 2.4 The vision is effectively communicated**
 - 2.4.1 A communication plan is established and carried out
 - 2.4.2 The actions of teams and other key managers set an example of the needed changes
 - 2.5 Employees are empowered to act on the vision**
 - 2.5.1 Key policies support the changes
 - 2.5.2 Obstacles to change are removed
 - 2.5.3 Risk-taking and new ideas are encouraged
 - 2.6 Short-term wins are planned**
 - 2.6.1 Short-term wins are planned
 - 2.6.2 The successes are communicated
 - 2.6.3 Individual and team efforts are recognized
 - 2.7 Progress is consolidated and used to drive more change**
 - 2.7.1 Progress is assessed and communicated
 - 2.7.2 Lessons learned are incorporated into new projects
 - 2.7.3 Teams are in place to ensure the Program continues until the benefits are realized
 - 2.8 The change is institutionalized within the corporation**
 - 2.8.1 Organizational polices, structures, and union agreements are amended to support the changes
 - 2.8.2 Training programs are established and delivered to support the changes
- 3. Adequate project management practices to manage process improvement projects**
 - 3.1 Processes to plan for the realization of benefits**
 - 3.1.1 Benefits are known
 - 3.1.2 Barriers are identified
 - 3.1.3 Plans are developed
 - 3.2 Processes to implement the plan for realizing benefits**
 - 3.2.1 A strong team is put in place to carry out the plan
 - 3.2.2 There are good project management practices
 - 3.2.3 Measuring and reporting standards are developed
 - 3.3 Processes to deliver and support the plan for realizing benefits**
 - 3.3.1 Agreement or contract signed on planned work
 - 3.3.2 Existing procedures are assessed and new procedures are agreed to
 - 3.3.3 New procedures are documented
 - 3.3.4 Employees are properly trained
 - 3.3.5 Problem and support management is implemented
 - 3.3.6 Performance measures are established
 - 3.3.7 Sign-off on work completed
 - 3.4 Processes to monitor the results achieved**
 - 3.4.1 Prompt reporting of results – outcomes
 - 3.4.2 Prompt reporting of results – outputs
 - 3.4.3 Independent assurance
 - 3.4.4 Assessment of results

Selected resources

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