Asset Portfolio Development and Delivery (APDD) - GM

Consulting Spend Context

The forecast FY15 Q1 consulting spend in the GM area of the APDD Group is dominantly to support delivery of the Monitoring and Control Systems (MCS) program, specifically approval of the strategic business case. Forecast FY15 expenses of $733k for this initiative are for one year only. It will establish the direction for MCS expenditure, which will be delivered as capital expenditure by team's responsible from FY16 onwards. The MCS program is described in detail in section 7.11 of the submission.

The temporary increase in consulting expenditure is also due to a temporary project to enable improved asset management, which is the key priority for the APDD group as a whole. Those proposed improvements were highlights in the submission, and reinforced by comments made by CH2M Hill in its review of existing practice. A range of changes to the CIS system will be required to support implementation of improved business practices. The forecast FY15 Q1 consulting spend in the GM area also included an allowance of $141k for the scoping and approval of those improvements, enabling system changes to be implemented within the 2015 calendar year. Delivery of the changes will be funded by the team's responsible from FY16 onwards.

FY14 and FY15 Reconciliation and FY15 Justification

APDD - GM	FY14A	FY15 Q1	Change
522207 - Consultancy - Others	-	873,715	873,715
522220 - Consultancy - Project Management	(270)	-	270
522236 - Consultancy - Communication	1,750	-	(1,750)
522238 - Consultancy - Strategy Planning	-	16,000	16,000
522240 - Consultancy - Economic & Regulatory	150,396	50,000	(100,396)
Grand Total	**151,876**	**939,715**	**787,839**

The real increase in natural account 522207 - Consultancy - Others is primarily driven by the MCS program. Seqwater acquired a mix of monitoring and control system (MCS) assets through the restructure, including obsolete and inconsistent equipment at some sites. That mixture of assets impacts upon operational risk and effectiveness, such as by highly manual operational regimes and reliance on third parties systems.

Prior to the merger on 1 January 2012, Seqwater and LinkWater had both developed separate monitoring and control systems projects. These projects involved a combined approved capital expenditure of $69M over seven years.

In FY15 Seqwater has engaged expert advice and resources to refine the scope of works to ensure that investment was prudent and efficient and that the investment is made in a sequence that reduced risk as quickly as possible. Once approved MCS program costs are incurred as capital expenditure and are included in Seqwater's capital expenditure forecast. At $733k, expenditure on optimising the scope and timing of the program represents about 1% of the forecast total program expenditure.

The key outcomes from this expert advice and resources will be a business case recommending an optimised program of MCS investment, supported by scopes of work, consolidated standards and procurement panels. That business case is scheduled for consideration by the Board in early CY15. Attached is a preliminary draft of that business case, which outlines the benefits of consolidation and scope of work proposed. More work has occurred since that time to quantify the benefits of investment and the scope of the initial projects. Individual business cases will be prepared for each major project within the program, once the preliminary design for that project has been completed.

The second of the increase in natural account 522207 - Consultancy - Others is a forecast of $141k for scoping of CIS improvements to support improved asset management. Those improvements are the key priority for the APDD group as a whole.

The need for improvements to asset management were outlined in the submission and highlighted by CH2M Hill in its review for the QCA. For example, section 4.4.2 of the CH2M Hill Report states that weaknesses of the Seqwater asset management approach include:

- Inconsistencies in the roles of specific planning instruments within the proposed Asset Management Framework, driven by legacy documents that remain current and transitional documents filling current Framework gaps
- An inconsistent and somewhat incomplete asset register, impacted by consolidation of asset information from disparate information systems post-merger
- No consolidated view (in a single document) of the performance objectives for the Seqwater asset portfolio
- Limited ‘cascading’ of asset performance indicators from strategic objectives down to operational investment ‘triggers’
- Asset portfolio operational performance objectives are largely treated separately from corporate performance objectives and are also reported separately
- An immature but developing approach to integration of capital and asset management planning outputs
- A level of ‘siloing’ in the development of the asset management approach for certain facilities or asset classes
- Limited documentation on either maintenance intervention criteria (outside of timing) or asset deterioration profiles under various operating scenarios.

A focused program of work is underway to address these issues, primarily within the Asset Capability and Sustainability and Engineering and Technical Support teams. That program includes the development of the next generation of Asset Class Plans and Asset Management Plans.

Development of those plans is dependent upon improvements to the CIS system. The priorities for improvement include:

- Development of a reliable and validated 30 year forecast investment profile for asset renewals and maintenance, supported by a clearly documented and robust methodology, which is consistent with leading asset management practice and demonstrates a sound engineering approach to managing assets across their entire lifecycle. This model will ensure that asset management is controlled, coordinated and implemented in a manner that will enable its ongoing application to deliver predictable and repeatable results that are not reliant on subjective assessment and do not depend solely on local knowledge.
- Amendment of the CIS system to better support management of the capital program, enabling replacement of the DAPTIV system. DAPTIV is currently used to manage the program budget within the current financial year. That system is unconnected to the CIS system, which contains actual expenditure and four year forward estimates (including expenditure on the same project in previous and future years). The manual transposition of data between the systems is time consuming and prone to errors.
- Amendment of the CIS system to enable management of the longer term capital program within the same system, ensuring better integration of improvement and renewal planning. At present, the 15 year program is managed through a separate spreadsheet.

Business process mapping for these improvements is currently underway, and the preparation of a scope of works and business case for the asset management module has commenced (for approval in Q3). Delivery of improvements will be resourced outside of the GM office budget by the relevant team, through a combination of programmed internal resources, consultancy budget and STRATEX funding applications,

Remaining forecast expenditure has reduced from $150k in FY14 to $66k in FY15. That expenditure is for a range of purposes, including group planning and administration support; business process improvement support; assistance in preparation of regulatory documents and management of legacy project delivery alliances, such as for the Northern Pipeline Interconnector.

Post FY15 Forecast

MCS program and asset management systems costs in FY15 in the GM area are one-off expenditures and will not extend into FY16. The costs of delivering the MCS program have been allowed for as part of the capital program outlined in Section 7.11 of the submission.

Seqwater recommends that the APDD GM consulting costs be held static at FY15 Q1 levels for FY15 and that they be held (excluding one-offs) at $66k pa (in real terms) from FY16 onwards, and that 522207 - Consultancy – Others be reduced to zero in FY16 onwards.